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This announcement is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities.

*This announcement does not constitute or form a part of any offer or solicitation to purchase or subscribe for securities in the United States. The securities have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**"), or the securities law of any state of the United States or other jurisdiction. The securities are being offered and sold outside the United States to non-U.S. persons in reliance on Regulation S under the Securities Act (the "**Regulation S**") and may not be sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S) absent registration or an exemption from registration under the Securities Act. No public offering of the securities will be made in the United States or in any other jurisdiction where such an offering is restricted or prohibited.*

***This announcement and the listing documents referred to herein are for information purposes only as required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and do not constitute an offer to sell or acquire or the solicitation of an offer to buy any securities. Neither this announcement nor anything referred to herein (including the listing documents) forms the basis for any contract or commitment whatsoever.** For the avoidance of doubt, the publication of this announcement and the listing documents referred to herein shall not be deemed to be an offer of securities made pursuant to a prospectus issued by or on behalf of the Issuer (as defined below) for the purposes of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong nor shall it constitute an advertisement, invitation or document containing an invitation to the public to enter into or offer to enter into an agreement to acquire, dispose of, subscribe for or underwrite securities for the purposes of the Securities and Futures Ordinance (Cap. 571) of Hong Kong.*

***Notice to Hong Kong investors:** The Issuer and the Guarantor (as defined below) confirm that the Notes (as defined below) are intended for purchase by professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited) only and have been listed on The Stock Exchange of Hong Kong Limited on that basis. Accordingly, the Issuer and the Guarantor confirm that the Notes are not appropriate as an investment for retail investors in Hong Kong. Investors should carefully consider the risks involved.*

PUBLICATION OF OFFERING CIRCULAR AND PRICING SUPPLEMENT

AMIPEACE LIMITED

(incorporated in the British Virgin Islands with limited liability)

(the "Issuer")

U.S.$600,000,000 1.75 PER CENT. NOTES DUE 2026
(the "Notes")
(Stock Code: 40910)

under the

HK$20,000,000,000 Medium Term Note Programme
(the "Programme")

unconditionally and irrevocably guaranteed by

中國銀行
BANK OF CHINA

BANK OF CHINA LIMITED, MACAU BRANCH

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

(the "Guarantor")

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

Please refer to the offering circular relating to the Programme dated 19 October 2021 (the "**Offering Circular**") and the pricing supplement relating to the Notes dated 2 November 2021 (the "**Pricing Supplement**") appended herein. The Offering Circular and the Pricing Supplement are published in English only. No Chinese version of the Offering Circular and the Pricing Supplement have been published.

Hong Kong, 10 November 2021

As at the date of this notice, the Directors of Bank of China Limited are: Liu Liange, Liu Jin, Wang Wei, Lin Jingzhen, Zhao Jie, Xiao Lihong*, Wang Xiaoya*, Zhang Jiangang*, Chen Jianbo*, Wang Changyun#, Angela Chao#, Jiang Guohua#, Martin Cheung Kong Liao#, Chen Chunhua# and Chui Sai Peng Jose#, and the Directors of the Issuer are Ser Chak Lam and Tang Ling.*

* *Non-executive Directors*
\# *Independent Non-executive Directors*

Appendix 1

Offering Circular of the Issuer dated 19 October 2021

IMPORTANT NOTICE

NOT FOR DISTRIBUTION TO ANY PERSON OR ADDRESS IN THE UNITED STATES

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

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND SECURITIES IN BEARER FORM ARE SUBJECT TO U.S. TAX LAW REQUIREMENTS. THE SECURITIES MAY NOT BE OFFERED OR SOLD OR (IN THE CASE OF NOTES IN BEARER FORM) DELIVERED WITHIN THE UNITED STATES, OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT) EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THIS OFFERING CIRCULAR MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER, AND IN PARTICULAR, MAY NOT BE FORWARDED TO ANY ADDRESS IN THE UNITED STATES. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

Confirmation of your Representation: In order to be eligible to view this Offering Circular or make an investment decision with respect to the securities, investors must not be located in the United States. This Offering Circular is being sent at your request and by accepting the e mail and accessing this Offering Circular, you shall be deemed to have represented to us that the electronic mail address that you gave us and to which this e mail has been delivered is not located in the United States and that you consent to delivery of such Offering Circular by electronic transmission.

You are reminded that this Offering Circular has been delivered to you on the basis that you are a person into whose possession this Offering Circular may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver this Offering Circular to any other person.

The materials relating to the offering of securities to which this Offering Circular relates do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the underwriters or any affiliate of the underwriters is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the underwriters or such affiliate on behalf of the Issuer (as defined in this Offering Circular) in such jurisdiction.

This Offering Circular has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of Amipeace Limited (the "Issuer"), Bank of China Group Investment Limited (the "Company"), Bank of China Limited, Macau Branch (the "Guarantor"), Bank of China Limited, Bank of China (Hong Kong) Limited and BOCI Asia Limited (the "Arrangers" and the "Dealers"), any person who controls the Arrangers or the Dealers, any director, officer, employee nor agent of the Issuer or the Company or the Guarantor or the Arrangers or the Dealers, or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Offering Circular distributed to you in electronic format and the hard copy version available to you on request from the Arrangers or the Dealers.

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

AMIPEACE LIMITED

(incorporated with limited liability in the British Virgin Islands)

(as Issuer, a wholly-owned subsidiary of Bank of China Group Investment Limited)

Unconditionally and irrevocably guaranteed by

中国銀行
BANK OF CHINA

BANK OF CHINA LIMITED, MACAU BRANCH

HK$20,000,000,000

Medium Term Note Programme

Under the HK$20,000,000,000 Medium Term Note Programme described in this Offering Circular (the "Programme"), Amipeace Limited (the "Issuer"), subject to compliance with all relevant laws, regulations and directives, may from time to time issue guaranteed medium term notes (the "Notes") unconditionally and irrevocably guaranteed (the "Guarantee of the Notes") by Bank of China Limited, Macau Branch (the "Guarantor"). The Issuer is a wholly-owned subsidiary of Bank of China Group Investment Limited (the "Company").

Notes may be issued in bearer or registered form. The aggregate nominal amount of Notes outstanding will not at any time exceed HK$20,000,000,000 (or its equivalent in other currencies). The Notes may be issued on a continuing basis to one or more of the Dealers specified under "*Summary of the Programme*" or any additional Dealer appointed under the Programme from time to time by the Issuer (each a "Dealer" and together the "Dealers"), which appointment may be for a specific issue or on an ongoing basis. References in this Offering Circular to the "relevant Dealer" shall, in the case of an issue of Notes being (or intended to be) subscribed for by more than one Dealer, be to all Dealers agreeing to subscribe for such Notes.

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

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

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

Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and any other terms and conditions not contained herein which are applicable to each Tranche (as defined under "*Terms and Conditions of the Notes*" and each term therein, a "Condition") of Notes will be set out in a pricing supplement (the "Pricing Supplement") which, with respect to Notes to be listed on the Hong Kong Stock Exchange, will be delivered to the Hong Kong Stock Exchange, on or before the date of issue of the Notes of such Tranche.

Where the Circular on Promoting the Reform of the Filing and Registration System for Issuance of foreign Debt by Enterprises（國家發展改革委關於推進企業發行外債備案登記制管理改革的通知（發改外資[2015]2044號））issued by the National Development and Reform Commission of the PRC (the "NDRC") and which came into effect on 14 September 2015, as supplemented by the relevant document issued by the NDRC in relation to the annual foreign debt quota and/or the relevant pre-issuance registration or amended registration certificate available to the Guarantor (where applicable) and any implementation rules, regulations, certificates, circulars or notices in connection therewith as issued by the NDRC from time to time (the "NDRC Circular") apply, for the benefit of the Notes to be issued in accordance with these Conditions, with respect to the offering of a particular tranche of Notes, Bank of China Limited shall undertake to make the required filing with the NDRC within the period prescribed in the relevant certificate of any registration or amended registration with respect to the offering of the Notes with the NDRC.

The relevant Pricing Supplement in respect of the issue of any Notes will specify whether or not such Notes will be listed on the Hong Kong Stock Exchange or any other stock exchange.

The Notes of each Series issued in bearer form ("Bearer Notes") will be represented on issue by a temporary global note in bearer form (each a "Temporary Global Note") or a permanent global note in bearer form (each a "Permanent Global Note") (collectively, the "Global Notes"). Notes in registered form ("Registered Notes") will be represented by registered certificates (each an "Certificate"), one Certificate being issued in respect of each Noteholder's entire holding of Notes in registered form of one Series. Certificates representing Registered Notes that are registered in the name of, or in the name of a nominee for, one or more clearing systems are referred to as global certificates ("Global Certificates"). Global Notes and Global Certificates may be deposited on the relevant issue date with a common depositary on behalf of Euroclear Bank SA/NV ("Euroclear") and/or Clearstream Banking S.A. ("Clearstream, Luxembourg"), or with a sub custodian for the Central Moneymarkets Unit Service (the "CMU Service") operated by the Hong Kong Monetary Authority (the "HKMA").

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

Notification under Section 309B(1)(c) of the Securities and Futures Act (Chapter 289) of Singapore (the "SFA") – Unless otherwise stated in the Pricing Supplement in respect of any Notes, all Notes issued or to be issued under the Programme shall be prescribed capital markets products (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

MiFID II product governance/target market – The Pricing Supplement in respect of any Notes may include a legend entitled "MiFID II Product Governance" which will outline the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person subsequently offering, selling or recommending the Notes (a "distributor") should take into consideration the target market assessment; however, a distributor subject to Directive 2014/65/EU (as amended, "MiFID II") is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

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

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

A determination will be made in relation to each issue about whether, for the purpose of the UK MiFIR Product Governance Rules, any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise neither the Arrangers nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the UK MIFIR Product Governance Rules.

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

UK PRIIPs REGULATION – PROHIBITION OF SALES TO UK RETAIL INVESTORS – If the Pricing Supplement in respect of any Notes includes a legend entitled "Prohibition of Sales to UK Retail Investors", the Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the UK. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the "EUWA"); (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 (the "FSMA") and any rules or regulations made under the FSMA to implement the Insurance Distribution Directive, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA; or (iii) not a qualified investor as defined in Article 2 of the Prospectus Regulation as it forms part of domestic law by virtue of the EUWA.

Consequently no key information document required by the PRIIPs Regulation as it forms part of domestic law by virtue of the EUWA (the "UK PRIIPs Regulation") for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

The Notes are expected to be assigned ratings by any of Fitch Ratings, Inc. ("Fitch"), Moody's Investors Service, Inc. ("Moody's") and/or S&P Global Ratings ("S&P"), in each case as specified in the relevant Pricing Supplement.

Investing in Notes issued under the Programme involves certain risks and may not be suitable for all investors. Investors should have sufficient knowledge and experience in financial and business matters to evaluate the information contained in this Offering Circular and in the applicable Pricing Supplement and the merits and risks of investing in a particular issue of Notes in the context of their financial position and particular circumstances. Investors also should have the financial capacity to bear the risks associated with an investment in Notes. Investors should not purchase Notes unless they understand and are able to bear risks associated with Notes. The principal risk factors that may affect the ability of the Issuer and the Guarantor to fulfil their respective obligations in respect of the Notes and the Guarantee of the Notes, are discussed under "*Risk Factors*" below.

Hong Kong Exchanges and Clearing Limited and the Hong Kong Stock Exchange take no responsibility for the contents of this Offering Circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Offering Circular.

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

Arrangers and Dealers

Bank of China

The date of this Offering Circular is 19 October 2021

Each of the Issuer and the Company having made all reasonable enquiries confirms that to the best of its knowledge and belief (i) this Offering Circular contains all information with respect to the Issuer, the Company, the Guarantor, the Bank and its subsidiaries taken as a whole (the "Group"), the Notes and the Guarantee of the Notes which is material in the context of the issue and offering of the Notes; (ii) the statements contained herein relating to the Issuer, the Company, the Guarantor, the Bank, the Group, the Notes and the Guarantee of the Notes are in every material respect true and accurate and not misleading and there are no other facts in relation to the Issuer, the Company, the Guarantor, the Bank, the Group, the Notes and the Guarantee of the Notes the omission of which would, in the context of the issue and offering of the Notes, make any statement in this Offering Circular misleading in any material respect; (iii) the statements of intention, opinion and belief or expectation contained in this Offering Circular with regard to the Issuer, the Company, the Guarantor, the Bank and the Group are honestly and reasonably made or held, have been reached after considering all relevant circumstances; and (iv) all reasonable enquiries have been made by the Issuer and the Company to ascertain such facts and to verify the accuracy of all such information and statements.

Each Tranche (as defined herein) of Notes will be issued on the terms set out herein under "*Terms and Conditions of the Notes*" (the "Conditions") as amended and/or supplemented by the Pricing Supplement specific to such Tranche. This Offering Circular must be read and construed together with any amendments or supplements hereto and with any information incorporated by reference herein and, in relation to any Tranche of Notes, must be read and construed together with the relevant Pricing Supplement.

The distribution of this Offering Circular and any Pricing Supplement and the offering, sale and delivery of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuer, the Company, the Guarantor, the Bank, the Group, the Arrangers and the Dealers to inform themselves about and to observe any such restrictions. None of the Issuer, the Company, the Guarantor, the Bank, the Group, the Arrangers or the Dealers represents that this Offering Circular or any Pricing Supplement may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assumes any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Company, the Guarantor, the Bank, the Group, the Arrangers or the Dealers which would permit a public offering of any Notes or distribution of this Offering Circular or any Pricing Supplement in any jurisdiction where action for such purposes is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and none of this Offering Circular, any Pricing Supplement or any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations.

There are restrictions on the offer and sale of the Notes and the circulation of documents relating thereto, in certain jurisdictions including, but not limited to, the United States of America, the EEA, the UK, Hong Kong, the PRC, the British Virgin Islands, Japan and Singapore, and to persons connected therewith. The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act") or with any securities regulatory authority of any state or other jurisdiction of the United States and may include Notes in bearer form that are subject to U.S. tax law requirements. Subject to certain exceptions, the Notes may not be offered, sold or, in the case of bearer notes, delivered within the United States. The Notes are being offered and sold outside the United States in reliance on Regulation S under the Securities Act. For a description of certain restrictions on offers, sales and transfers of Notes and on the distribution of this Offering Circular, see "*Subscription and Sale*".

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

Listing of the Notes on the Hong Kong Stock Exchange is not to be taken as an indication of the merits of the Issuer, the Company, the Guarantor, the Bank, the Group, the Notes, or the Guarantee of the Notes. In making an investment decision, investors must rely on their own examination of the Issuer, the Company, the Guarantor, the Bank, the Group and the terms of the offering, including the merits and risks involved. See "*Risk Factors*" for a discussion of certain factors to be considered in connection with an investment in the Notes.

No person has been authorised by the Issuer, the Company, the Bank, the Group or the Guarantor to give any information or to make any representation not contained in or not consistent with this Offering Circular or any other document entered into in relation to the Programme and the sale of Notes and, if given or made, such information or representation should not be relied upon as having been authorised by the Issuer, the Company, the Guarantor, the Bank, the Group any Arranger or any Dealer.

Neither the delivery of this Offering Circular or any Pricing Supplement nor the offering, sale or delivery of any Note shall, in any circumstances, create any implication that the information contained in this Offering Circular is true subsequent to the date hereof or the date upon which this Offering Circular has been most recently amended or supplemented or that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the prospects or financial or trading position of the Issuer, the Company or the Guarantor since the date thereof or, if later, the date upon which this Offering Circular has been most recently amended or supplemented or that any other information supplied in connection with the Programme is correct at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

Neither this Offering Circular nor any Pricing Supplement constitutes an offer or an invitation to subscribe for or purchase any Notes and should not be considered as a recommendation by the Issuer, the Company, the Guarantor, the Bank, the Group, the Arrangers, the Dealers, or any director, officer, employee, agent or affiliate of any such person or any of them that any recipient of this Offering Circular or any Pricing Supplement should subscribe for or purchase any Notes. Each recipient of this Offering Circular or any Pricing Supplement shall be taken to have made its own investigation and appraisal of the condition (financial or otherwise) of the Issuer, the Company and the Guarantor.

The maximum aggregate principal amount of Notes outstanding and guaranteed at any one time under the Programme will not exceed HK$20,000,000,000 (and for this purpose, any Notes denominated in another currency shall be translated into Hong Kong dollars at the date of the agreement to issue such Notes calculated in accordance with the provisions of the Dealer Agreement). The maximum aggregate principal amount of Notes which may be outstanding and guaranteed at any one time under the Programme may be increased from time to time, subject to compliance with the relevant provisions of the Dealer Agreement as defined under "*Subscription and Sale*".

In connection with the issue of any Tranche of Notes, the Dealer or Dealers (if any) appointed and acting in the capacity as the stabilisation manager(s) (the "Stabilisation Manager(s)") (or persons acting on behalf of any Stabilisation Manager(s)) in the applicable Pricing Supplement may, to the extent permitted by applicable laws and rules, over allot the Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation Manager(s)) in accordance with all applicable laws and rules.

Notification under Section 309B(1)(c) of the Securities and Futures Act (Chapter 289) of Singapore (the "SFA"**) –** Unless otherwise stated in the Pricing Supplement in respect of any Notes, all Notes issued or to be issued under the Programme shall be prescribed capital markets products (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

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

A determination will be made in relation to each issue about whether, for the purpose of the MiFID Product Governance Rules, any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise neither the Arrangers nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MIFID Product Governance Rules.

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

A determination will be made in relation to each issue about whether, for the purpose of the UK MiFIR Product Governance Rules, any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise neither the Arrangers nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the UK MIFIR Product Governance Rules.

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

UK PRIIPs REGULATION – PROHIBITION OF SALES TO UK RETAIL INVESTORS – If the Pricing Supplement in respect of any Notes includes a legend entitled "Prohibition of Sales to UK Retail Investors", the Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the UK. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the "EUWA"); (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 (the "FSMA") and any rules or regulations made under the FSMA to implement the Insurance Distribution Directive, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA; or (iii) not a qualified investor as defined in Article 2 of the Prospectus Regulation as it forms part of domestic law by virtue of the EUWA.

Consequently no key information document required by the PRIIPs Regulation as it forms part of domestic law by virtue of the EUWA (the "UK PRIIPs Regulation") for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

None of the Arrangers, the Dealers or any Agents has separately verified the information contained in this Offering Circular. To the fullest extent permitted by law, none of the Arrangers, the Dealers or any Agent or any director, officer, employee, agent or affiliate of any such person makes any representation, warranty or undertaking, express or implied, or accepts any responsibility, with respect to the accuracy or completeness of any of the information in this Offering Circular. To the fullest extent permitted by law, none of the Arrangers, the Dealers or any Agent or any director, officer, employee, agent or affiliate of any such person accepts any responsibility for the contents of this Offering Circular or for any other statement made or purported to be made by an Arranger, a Dealer, any Agent, or any director, officer, employee, agent or affiliate of any such person or on its behalf in connection with the Issuer, the Company, the Bank, the Group, the Guarantor, the Notes, the Guarantee of the Notes or the issue and offering of the Notes. Each Arranger, each Dealer and each Agent accordingly disclaim all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Offering Circular or any such statement.

This Offering Circular does not describe all of the risks and investment considerations (including those relating to each investor's particular circumstances) of an investment in Notes of a particular issue. Each potential purchaser of Notes should refer to and consider carefully the relevant Pricing Supplement for each particular issue of Notes, which may describe additional risks and investment considerations associated with such Notes. The risks and investment considerations identified in this Offering Circular and the applicable Pricing Supplement are provided as general information only. Investors should consult their own financial and legal advisors as to the risks and investment considerations arising from an investment in an issue of Notes and should possess the appropriate resources to analyse such investment and the suitability of such investment in their particular circumstances.

Neither this Offering Circular nor any other information provided or incorporated by reference in connection with the Programme are intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the Issuer, the Company, the Bank, the Group the Guarantor, the Arrangers or the Dealers, or any director, officer, employee, agent or affiliate of any such person that any recipient, of this Offering Circular or of any such information, should purchase the Notes. Each potential purchaser of Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer, the Company, the Bank, the Guarantor and the Group. Each potential purchaser of Notes should determine for itself the relevance of the information contained in this Offering Circular and its purchase of Notes should be based upon such investigation as it deems necessary. None of the Arrangers, the Dealers or the Agents or any agent or affiliate of any such person undertakes to review the financial condition or affairs of the Issuer, the Company, the Bank, the Group or the Guarantor during the life of the arrangements contemplated by this Offering Circular nor to advise any investor or potential investor in the Notes of any information coming to the attention of any of the Arrangers, the Dealers, the Agents or any of them.

In this Offering Circular, where information has been presented in thousands or millions of units, amounts may have been rounded up or down. Accordingly, totals of columns or rows of numbers in tables may not be equal to the apparent total of the individual items and actual numbers may differ from those contained herein due to rounding.

Because of the substantial differences in the business model and the risk assessment approach in relation to the aircraft leasing and insurance business, the financial figures of the Company included in this Offering Circular have excluded those relating to BOC Aviation Limited and BOC-Samsung Life Ins. Co., Ltd. and their respective subsidiaries.

In this Offering Circular, unless otherwise specified or the context otherwise requires, all references to the "Bank" are to Bank of China Limited, "U.S.$" and to "U.S. dollars" are to United States dollars; all references to "HK$" and "Hong Kong dollars" are to Hong Kong dollars; all references to "pounds sterling" and "£" are to the currency of the UK; all references to "euro" and "€" are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended; all references to "S$" are to Singapore dollars; all references to "yen" are to Japanese yen; all references to "Renminbi", "RMB" "Chinese Yuan" and "CNY" are to the currency of the PRC; all references to "United States" or "U.S." are to the United States of America; references to "China", "Mainland China" and the "PRC" in this Offering Circular mean the People's Republic of China and for geographical reference only (unless otherwise stated) exclude Taiwan, Macau and Hong Kong; references to "PRC Government" mean the government of the PRC; references to "Hong Kong" are to the Hong Kong Special Administrative Region of the People's Republic of China; references to "Macau" are to the Macao Special Administrative Region of the People's Republic of China; and all references to "United Kingdom" and "UK" are to the United Kingdom of Great Britain and Northern Ireland.

In this Offering Circular, unless the contrary intention appears, a reference to a law or a provision of a law is a reference to the law or provision as extended, amended or re-enacted.

FORWARD LOOKING STATEMENTS

Certain statements under "*Risk Factors*", "*Description of the Company*", "*Description of the Bank*", and elsewhere in this Offering Circular constitute "*forward looking statements*". The words including "*believe*", "*intend*", "*expect*", "*plan*", "*anticipate*", "*schedule*", "*estimate*" and similar words or expressions identify forward looking statements. In addition, all statements other than statements of historical facts included in this Offering Circular, including, but without limitation, those regarding the financial position, business strategy, prospects, capital expenditure and investment plans of the Company or the Group and the plans and objectives of the management of the Company and the Group for its future operations (including development plans and objectives relating to the Group's operations), are forward looking statements. Such forward looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results or performance of the Company or the Group to differ materially from those expressed or implied by such forward looking statements. Such forward looking statements are based on numerous assumptions regarding the Company's and the Group's present and future business strategies of the Company and the Group and the environment in which the Company or the Group will operate in the future. The Issuer and the Company expressly disclaim any obligation or undertaking to release any updates or revisions to any forward looking statements contained herein to reflect any change in the Issuer's, the Company's, the Guarantor's, the Bank's or the Group's expectations with regard thereto or any change of events, conditions or circumstances, on which any such statements were based. This Offering Circular discloses, under "Risk Factors" and elsewhere, important factors that could cause actual results to differ materially from the Issuer's or the Company's expectations. All subsequent written and forward looking statements attributable to the Issuer or the Company or persons acting on behalf of the Issuer or the Company are expressly qualified in their entirety by such cautionary statements.

INFORMATION INCORPORATED BY REFERENCE

This Offering Circular should be read and construed in conjunction with each relevant Pricing Supplement and the most recently published audited annual financial statements and any interim financial statements (whether audited or unaudited) published subsequently to such annual financial statements of Bank of China Limited from time to time on (if any), in each case published on the Hong Kong Stock Exchange as described in the applicable Pricing Supplement and all amendments and supplements from time to time to this Offering Circular, which shall be deemed to be incorporated in, and to form part of, this Offering Circular and which shall, to the extent as described in the applicable Pricing Supplement, be deemed to modify or supersede the contents of this Offering Circular to the extent that a statement contained in any such document is inconsistent with such contents.

Copies of all such documents which are so deemed to be incorporated in, and to form part of, this Offering Circular will be available free of charge during usual business hours on any weekday (Saturdays and public holidays excepted) from the specified offices of the Paying Agents and the principal office in Hong Kong of the Fiscal Agent (as defined under "*Summary of the Programme*") (or such other Paying Agent for the time being in Hong Kong) set out at the end of this Offering Circular.

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SUMMARY OF THE PROGRAMME

This summary must be read as an introduction to this Offering Circular and any decision to invest in the Notes should be based on a consideration of this Offering Circular as a whole, including any information incorporated by reference. Words and expressions defined in the "Terms and Conditions of the Notes" below or elsewhere in this Offering Circular have the same meanings in this summary.

Issuer	Amipeace Limited
Legal Entity Identifier of the Issuer	549300Z8IOSIIKWF5763
Company	Bank of China Group Investment Limited
Guarantor	Bank of China Limited, Macau Branch
Programme Size	Up to HK$20,000,000,000 (or the equivalent in other currencies calculated as described in the Dealer Agreement) outstanding at any time. The Issuer and the Company may increase the amount of the Programme in accordance with the terms of the Dealer Agreement.
Risk Factors	Investing in Notes issued under the Programme involves certain risks. The principal risk factors that may affect the abilities of the Issuer, the Company and the Guarantor in fulfilling their respective obligations in respect of the Notes and the Guarantee of the Notes are discussed under the section "*Risk Factors*" below.
Arrangers	Bank of China Limited, Bank of China (Hong Kong) Limited and BOCI Asia Limited
Dealers	Bank of China Limited, Bank of China (Hong Kong) Limited and BOCI Asia Limited and any other Dealer appointed from time to time by the Issuer either generally in respect of the Programme or in relation to a particular Tranche of Notes.
Issuing and Paying Agent and Transfer Agent	China Construction Bank (Asia) Corporation Limited
Registrar	China Construction Bank (Asia) Corporation Limited
Fiscal Agent and CMU Lodging and Paying Agent	China Construction Bank (Asia) Corporation Limited
Method of Issue	The Notes will be issued on a syndicated or non-syndicated basis. The Notes will be issued in series (each a "Series") having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest), the Notes of each Series being intended to be interchangeable with all other Notes of that Series. Each Series may be issued in tranches (each a "Tranche") on

	the same or different issue dates. The specific terms of each Tranche (which will be completed, where necessary, with the relevant terms and conditions and, save in respect of the issue date, issue price, first payment date of interest and nominal amount of the Tranche, will be identical to the terms of other Tranches of the same Series) will be completed in the Pricing Supplement.
Clearing Systems	Euroclear, Clearstream, Luxembourg and/or the CMU Service and, in relation to any Tranche, such other clearing system as may be agreed between the Issuer and the relevant Dealer.
Form of Notes	Notes may be issued in bearer form or in registered form. Registered Notes will not be exchangeable for Bearer Notes and *vice versa*. Each Tranche of Bearer Notes will initially be in the form of either a Temporary Global Note or a Permanent Global Note, in each case as specified in the relevant Pricing Supplement. Each Global Note will be deposited on or around the relevant issue date with a common depositary or sub custodian for Euroclear, Clearstream, Luxembourg and/or as the case may be, the CMU Service and/or any other relevant clearing system. Each Temporary Global Note will be exchangeable for a Permanent Global Note or, if so specified in the relevant Pricing Supplement, for Definitive Notes. If the TEFRA D Rules are specified in the relevant Pricing Supplement as applicable, certification as to non U.S. beneficial ownership will be a condition precedent to any exchange of an interest in a Temporary Global Note or receipt of any payment of interest in respect of a Temporary Global Note. Each Permanent Global Note will be exchangeable for Definitive Notes in accordance with its terms. Definitive Notes will, if interest bearing, have Coupons attached and, if appropriate, a Talon for further Coupons. Registered Notes will initially be represented by Registered Global Notes. Registered Global Notes representing Registered Notes will be registered in the name of a nominee for one or more of Euroclear, Clearstream, Luxembourg and the CMU Service.
Currencies	Notes may be denominated in any currency or currencies, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements. Payments in respect of Notes may, subject to such compliance, be made in and/or linked to, any currency or currencies other than the currency in which such Notes are denominated.
Status of the Notes	The Notes constitute direct, general and unconditional obligations of the Issuer which will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future unsecured obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.
Status of the Guarantee of the Notes	The Guarantee of the Notes constitutes the direct, unconditional, unsubordinated, general unsecured obligations of the Guarantor

	which will at all times rank at least equally with all the other outstanding unsecured or unsubordinated Public External Indebtedness of the Guarantor (as defined in the Terms and Conditions of the Notes) (except for any statutory preference or priority applicable in the winding-up of the Guarantor).
Issue Price	Notes may be issued at their nominal amount or at a discount or premium to their nominal amount. Partly Paid Notes may be issued, the issue price of which will be payable in two or more instalments.
Maturities	Any maturity, subject, in relation to specific currencies, to compliance with all applicable legal and/or regulatory and/or central bank requirements.
Notes having a maturity of less than one year	Notes having a maturity of less than one year will, if the proceeds of the issue are accepted in the United Kingdom, constitute deposits for the purposes of the prohibition on accepting deposits contained in section 19 of the Financial Services and Markets Act 2000 ("FSMA") unless they are issued to a limited class of professional investors and have a denomination of at least £100,000 or its equivalent, see "*Subscription and Sale*".
Redemption	Notes may be redeemable at par or at such other Redemption Amount (detailed in a formula, index or otherwise) as may be specified in the relevant Pricing Supplement. Notes may also be redeemable in two or more instalments on such dates and in such manner as may be specified in the relevant Pricing Supplement.
Optional Redemption	Notes may be redeemed before their stated maturity at the option of the Issuer (either in whole or in part) and/or the Noteholders to the extent (if at all) specified in the relevant Pricing Supplement.
Tax Redemption	Except as described in "Optional Redemption" above, early redemption will only be permitted for tax reasons as described in Condition 10(b) (*Redemption for tax reasons*).
Interest	Notes may be interest bearing or non-interest bearing. Interest (if any) may accrue at a fixed rate, floating rate, other variable rate or be index linked and the method of calculating interest may vary between the issue date and the maturity date of the relevant Series. All such information will be set out in the relevant Pricing Supplement.
Denominations	Notes will be issued in such denominations as may be specified in the relevant Pricing Supplement, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements.
Withholding Tax	All payments in respect of Notes and the Guarantee of the Notes will be made free and clear of withholding taxes of the British Virgin Islands, the PRC or Macau, as the case may be, unless the

	withholding is required by law. In that event, the Issuer or (as the case may be) the Guarantor will (subject to certain customary exceptions as described in Condition 13 (*Taxation*)) pay such additional amounts as will result in the Noteholders receiving such amounts as they would have received in respect of such Notes or, as the case may be, the Guarantee of the Notes, had no such withholding been required.
Listing and Trading	Application has been made to the Hong Kong Stock Exchange for the listing of the Programme during the 12-month period after the date of this Offering Circular on the Hong Kong Stock Exchange under which Notes may be issued by way of debt issues to Professional Investors only. Separate application may be made for the listing of the Notes on the Hong Kong Stock Exchange. However, unlisted Notes and Notes to be listed, traded or quoted on or by any other competent authority, stock exchange or quotation system may be issued pursuant to the Programme. The relevant Pricing Supplement in respect of the issue of any Notes will specify whether or not such Notes will be listed on the Hong Kong Stock Exchange or listed, traded or quoted on or by any other competent authority, exchange or quotation system.
Governing Law	English law.
Rating	Each Series of Notes are expected to be assigned ratings by any of Fitch, Moody's and/or S&P, as specified in the applicable Pricing Supplement.
Selling Restrictions	For a description of certain restrictions on offers, sales and deliveries of Notes and on the distribution of offering material in the United States of America, the EEA, the UK, Hong Kong, the PRC, the British Virgin Islands, Japan and Singapore, see "*Subscription and Sale*" below.
Initial Delivery of Notes	On or before the issue date for each Tranche, the Global Note representing Bearer Notes or the Global Certificate representing Registered Notes may be deposited with a common depositary for Euroclear and Clearstream, Luxembourg or deposited with a sub custodian for the CMU Service or any other clearing system or may be delivered outside any clearing system **provided that** the method of such delivery has been agreed in advance by the Issuer, the Fiscal Agent and the relevant Dealers. Registered Notes that are to be credited to one or more clearing systems on issue will be registered in the name of, or in the name of a nominee or a sub custodian for, such clearing systems.

SUMMARY FINANCIAL INFORMATION OF THE BANK

The summary financial information set forth below has been extracted from the Group's audited consolidated financial statements as at and for the years ended 31 December 2019 and 2020 and the Group's unaudited condensed consolidated interim financial information as at and for the six months period ended 30 June 2021. It should also be read in conjunction with any other information incorporated into the Offering Circular (see "Information Incorporated by Reference" in the Offering Circular).

There are certain new accounting standards adopted by the Bank since 1 January 2021. Please refer to "Notes to the Condensed Consolidated Interim Financial Information – I. Basis of Preparation and Principal Accounting Policies – 1. Standards and amendments effective in 2021 relevant to and adopted by the Group" of the Group's unaudited condensed consolidated interim financial information as at and for the six months period ended 30 June 2021 for details of such accounting standards.

As the unaudited condensed consolidated interim financial information as at and for the six months period ended 30 June 2020 and 2021 of the Group has not been audited but has been reviewed by the Bank's auditor in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity", such financial information should not be relied upon by investors to provide the same quality of information associated with information that has been subject to an audit. Investors should exercise caution when using such data to evaluate the Group's business, financial condition and results of operation. Such unaudited condensed consolidated interim financial information as at and for the six months period ended 30 June 2020 and 2021 of the Group should not be taken as an indication of the expected business, financial condition, results of operations and results of the Group for the full financial year ending 31 December 2021.

In accordance with the requirements of the Administrative Measures for the Selection and Appointment of Accounting Firms by State-owned Financial Enterprises of the Ministry of Finance of the PRC, the Bank engaged PricewaterhouseCoopers Zhong Tian LLP as the Bank's domestic auditor and external auditor for internal control audit for 2021, providing audit services on its financial statements and internal control pursuant to the Chinese Accounting Standards ("CAS"), and engaged PricewaterhouseCoopers as the Bank's international auditor for 2021, providing financial statement audit services pursuant to the IFRS. Ernst & Young Hua Ming LLP and Ernst & Young (together referred to as "Ernst & Young") have ceased to act as external auditors of the Bank. The Bank has received a written confirmation from Ernst & Young that there are no matters which needs to be brought to the attention of the shareholders of the Bank in relation to the change of external auditor of the Bank. The Board has also confirmed that there is no disagreement between Ernst & Young and the Bank, and there are no other matters in respect of the retirement of Ernst & Young and the appointment of PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers that need to be brought to the attention of shareholders of the Bank. The unaudited condensed consolidated interim financial information as at and for the six months period ended 30 June 2021 of the Group have been reviewed by PricewaterhouseCoopers in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity".

Consolidated Income Statement

	For the six months ended 30 June		For the year ended 31 December		
	2021	2020	2020	2019	2018
	(unaudited but reviewed)		(audited)	(audited)	(audited)
	(Amount in millions of Renminbi, unless otherwise stated)				
Interest income	386,934	375,930	760,070	758,007[(1)]	687,900
Interest expense	(178,161)	(179,035)	(344,152)	(367,957)	(328,194)
Net interest income	208,773	**196,895**	**415,918**	**390,050[(1)]**	**359,706**
Fee and commission income	52,912	57,021	88,640	88,099[(1)]	99,997
Fee and commission expense	(6,099)	(6,679)	(13,118)	(14,287)[(1)]	(12,789)
Net fee and commission income	46,813	**50,342**	**75,522**	**73,812[(1)]**	**87,208**
Net trading gains	9,754	2,173	8,055	28,563	6,719
Net gains on transfers of financial asset	1,852	7,623	9,547	3,477	2,817
Other operating income	35,663	29,950	58,605	54,108	47,356
Operating income	302,855	**286,983**	**567,647**	**550,010**	**503,806**
Operating expenses	(102,357)	(90,946)	(202,411)	(198,269)	(176,979)
Impairment losses on assets	(52,945)	(66,484)	(119,016)	(102,153)	(99,294)
Operating profit	147,553	**129,553**	**246,220**	**249,588**	**227,533**
Share of results of associates and joint ventures	749	63	158	1,057	2,110
Profit before income tax	148,302	**129,616**	**246,378**	**250,645**	**229,643**
Income tax expense	(29,755)	(21,804)	(41,282)	(48,754)	(37,208)
Profit for the period/year	**118,547**	**107,812**	**205,096**	**201,891**	**192,435**
Attributable to:					
Equity holders of the Bank	112,813	100,917	192,870	187,405	180,086
Non-controlling interests	5,734	6,895	12,226	14,486	12,349
	118,547	**107,812**	**205,096**	**201,891**	**192,435**
Earnings per share for profit attributable to equity holders of the Bank during the year (expressed in RMB per ordinary share)					
– Basic	0.36	0.32	0.61	0.61	0.59
– Diluted	0.36	0.32	0.61	0.61	0.59

Note:

(1) In 2020, the Bank reclassified the financing charges from credit card repayment by instalment from net fee and commission income to interest income. The comparative figures for the year ended 31 December 2019 were restated however, the comparative figures for the six months period ended 30 June 2020 and the year ended 31 December 2018 have not been restated.

Consolidated Statement of Financial Position

	As at 30 June	As at 31 December		
	2021	2020	2019	2018
	(unaudited but reviewed)	(audited)	(audited)	(audited)
	(Amount in millions of Renminbi, unless otherwise stated)			
Assets				
Cash and due from banks and other financial institutions	724,911	803,145	565,467	439,931
Balances with central banks	2,254,697	2,076,840	2,078,809	2,331,053
Placements with and loans to banks and other financial institutions	1,371,661	939,320	898,959	1,042,358
Government certificates of indebtedness for bank notes issued	173,783	168,608	155,466	145,010
Precious metals	207,914	223,313	206,210	181,203
Derivative financial assets	116,240	171,738	93,335	124,126
Loans and advances to customers, net	15,047,714	13,848,304	12,743,425	11,515,764
Financial investments	5,821,520	5,591,117	5,514,062	5,054,551
– financial assets at fair value through profit or loss	510,583	504,549	518,250	370,491
– financial assets at fair value through other comprehensive income	2,174,982	2,107,790	2,218,129	1,879,759
– financial assets at amortised cost	3,135,955	2,978,778	2,777,683	2,804,301
Investments in associates and joint ventures	35,552	33,508	23,210	23,369
Property and equipment	245,998	248,589	244,540	227,394
Investment properties	20,885	22,065	23,108	22,086
Deferred income tax assets	48,650	58,916	44,029	38,204
Other assets	247,802	217,196	179,124	122,226
Total assets	**26,317,327**	**24,402,659**	**22,769,744**	**21,267,275**
Liabilities				
Due to banks and other financial institutions	2,360,341	1,917,003	1,668,046	1,731,209
Due to central banks	895,824	887,811	846,277	907,521
Bank notes in circulation	173,755	168,751	155,609	145,187
Placements from banks and other financial institutions	500,009	411,949	639,675	612,267
Financial liabilities held for trading	12,706	17,912	19,475	14,327
Derivative financial liabilities	121,560	212,052	90,060	99,254
Due to customers	18,227,771	16,879,171	15,817,548	14,883,596
Bonds issued	1,301,561	1,244,403	1,096,087	782,127
Other borrowings	24,264	26,034	28,011	32,761
Current tax liabilities	28,322	55,665	59,102	27,894
Retirement benefit obligations	2,131	2,199	2,533	2,825
Deferred income tax liabilities	6,834	6,499	5,452	4,548
Other liabilities	431,901	410,373	365,173	298,362
Total liabilities	**24,086,979**	**22,239,822**	**20,793,048**	**19,541,878**
Equity				
Capital and reserves attributable to equity holders of the Bank				
Share capital	294,388	294,388	294,388	294,388
Other equity instruments	299,510	277,490	199,893	99,714
Capital reserve	136,178	135,973	136,012	142,135

	As at 30 June	As at 31 December		
	2021	2020	2019	2018
	(unaudited but reviewed)	(audited)	(audited)	(audited)
	(Amount in millions of Renminbi, unless otherwise stated)			
Treasury shares	(51)	(8)	(7)	(68)
Other comprehensive income	1,810	4,309	19,613	1,417
Statutory reserves	193,667	193,438	174,762	157,464
General and regulatory reserves	269,280	267,981	250,100	231,525
Undistributed profits	910,565	864,848	776,940	686,405
	2,105,347	**2,038,419**	**1,851,701**	**1,612,980**
Non-controlling interests	**125,001**	**124,418**	**124,995**	**112,417**
Total equity	**2,230,348**	**2,162,837**	**1,976,696**	**1,725,397**
Total equity and liabilities	**26,317,327**	**24,402,659**	**22,769,744**	**21,267,275**

EXCHANGE RATES

Set forth below are the average, high and low Noon Buying Rates between Hong Kong dollars and U.S. dollars, expressed in average Hong Kong dollars per U.S. dollar, for the periods indicated.

	Hong Kong dollars/U.S. dollar Noon Buying Rate		
	Average	**High**	**Low**
2014	7.7545	7.7612	7.7502
2015	7.7524	7.7584	7.7499
2016	7.7622	7.7829	7.7556
2017	7.7922	7.8217	7.756
2018	7.8371	7.8492	7.819
2019	7.8351	7.8499	7.7894
2020	7.7559	7.7951	7.7498
2021 (September)	7.7808	7.7877	7.7708

Source: Federal Reserve Bank of New York

RISK FACTORS

Prior to making any investment decision, prospective investors should consider carefully all of the information in this Offering Circular, including but not limited to the risks and uncertainties described below. The following factors are contingencies which may or may not occur and neither the Issuer nor the Company is in a position to express a view on the likelihood of any such contingency occurring. Any of the risks or uncertainties described below, as well as additional risks or uncertainties, including those which are not currently known to the Issuer or the Company or which the Issuer or the Company currently deems to be immaterial, may affect the Group's business, financial condition or results of operations or the Issuer's ability to fulfil its obligations under the Notes.

Risks relating to the PRC Banking Industry

The PRC banking regulatory regime is continually evolving and the Group is subject to future regulatory changes

The Group operates in a highly regulated industry and is subject to laws and regulations governing all aspects of its operations. The principal banking-related statutes and regulations are the Commercial Banking Law and the Law of PRC on Supervision and Administration of Banking Sector and the related implementation rules. The principal regulators of the PRC banking industry are the China Banking and Insurance Regulatory Commission (the former "**China Banking and Regulatory Commission**" and "**China Insurance Regulatory Commission**", the "**CBIRC**"), the People's Bank of China ("**PBOC**") and the State Administration of Foreign Exchange ("**SAFE**").

The PRC banking regulatory regime has been evolving continuously. Changes in the rules and regulations as well as their interpretations may result in additional costs or restrictions on the Group's operations and activities. For example, PBOC exercises significant influence over monetary policies.

In addition, the Group may be required to increase deposit reserves in response to future potential changes in PBOC rules and regulations. The Group may be required to take additional steps to adapt to future changes on a timely basis.

The Group's business and operations are directly affected by changes in the PRC's policies, laws and regulations relating to the banking industry, such as those affecting the extent to which it can engage in specific businesses, as well as changes in other governmental policies. There can be no assurance that the policies, laws and regulations governing the banking industry will not change in the future or that any changes will not materially and adversely affect the Group's business, financial condition and results of operations nor can there be any assurance that the Group will be able to adapt to any changes on a timely basis. For instance, changes in the financial regulatory policies may have a material impact on the operational and financial results of the Bank, while adjustment in the monetary policies and the regulatory methods will have a direct impact on the business activities of the Bank. The Group's business operations will be adversely affected if the Bank is unable to make proper adjustment to its business operations according to the trend of change in the financial regulatory policies and monetary policies. In addition, there may be uncertainties regarding the interpretation and application of new policies, laws and regulations, which may result in penalties and restrictions on the Group's activities and could also have a significant impact on its business.

The increasingly competitive nature of the PRC banking industry, as well as competition for funds which may arise from the development of the PRC capital markets, could adversely affect the Group's business, financial condition, results of operations and prospects

The PRC banking industry is becoming increasingly competitive. The Group faces competition from domestic and foreign-invested banks and financial institutions. In addition, the Mainland and Hong Kong Closer

Economic Partnership Arrangement, which allows Hong Kong banks to operate in the PRC, may also increase competition in the PRC banking industry. These banks and financial institutions compete with the Group for substantially the same loan, deposit and fee customers. Moreover, the PRC government has, in recent years, implemented a series of measures designed to further liberalise the banking industry, including those relating to interest rates and fee-and-commission based products and services, which are changing the basis on which the Group competes with other banks for customers. Competition in the PRC banking industry may be further aggravated by internet finance and the participation of private capital in the banking businesses. The increased competition may:

- reduce the Group's market share in its principal products and services;
- reduce the growth of the Group's loan portfolio or deposit base and other products and services;
- reduce the Group's interest income, increase the interest expenses and decrease its net interest margin;
- reduce the Group's fees and commission income;
- increase the Group's outgoings and expenses, such as marketing and administrative expenses;
- lead to a deterioration of the Group's asset quality; and
- increase the turnover of and competition for senior management and qualified professional personnel.

The Group faces increased competition in all the business areas in which it currently operates or will in the future operate. The Group may also face competition for funds from other forms of investment alternatives as the PRC capital market continues to develop. For example, the PRC capital market is becoming a more viable and attractive investment alternative and the Group's deposit customers may elect to transfer their funds into bonds, equities, investment funds and other capital market instruments, which may reduce its deposit base and adversely affect its business, financial condition and results of operations.

The rate of growth of the PRC banking market may not be sustainable

The Group expects the banking market in the PRC to expand as a result of growth in the PRC economy, increases in household wealth, continued social welfare improvement, demographic changes and the opening of the PRC banking market to foreign participants. The prospective impact on the PRC banking industry of certain trends and events, such as the slowing down of the growth of the economy and the increasing competition in the financial industry, remain uncertain. Consequently, there is no assurance that the historic high rate of growth of the PRC banking market can be sustained.

The third edition of the Basel Capital Accord promulgated in December 2010 by Basel Committee ("Basel III") and related reforms could have an adverse effect on the Bank's business

In accordance with Basel III, the minimum Tier 1 Capital Adequacy Ratio will be raised from 4 per cent. to 6 per cent., while the minimum Common Equity Tier 1 Capital will be raised to 4.5 per cent. (with CBIRC expected to require PRC banks to maintain a 5 per cent. Common Equity Tier 1 Capital), with an additional 2.5 per cent. capital conservation buffer and certain buffer for systematically important banks.

CBIRC published the CBIRC Capital Regulations in June 2012 requiring commercial banks to meet the regulatory capital adequacy requirements before the end of 2018. The regulatory capital adequacy ratios requirements under the CBIRC Capital Regulations include minimum capital requirements, reserve capital requirements, counter-cyclical capital requirements, additional capital requirements for systemically important banks and Tier 2 capital requirements. The CBIRC Capital Regulations have set higher requirements for both the quality and quantity of banks' capital and after the implementation of these Measures, there are a more stringent definition of capital, further improved regulatory standards for capital instruments, and gradually reduced traditional subordinated debt capital instruments. Any failure of the Bank to adapt to the more stringent requirements for capital adequacy ratios level under the New Basel Capital Accord and thus to meet the higher requirements for the relevant regulatory indicators may adversely affect the Bank's business.

The Group's results of operations may be materially and adversely affected if PBOC further deregulates interest rates

PBOC has adopted reform measures to liberalise the PRC's interest rate regime. For example, in October 2004, PBOC eliminated restrictions in respect of the maximum interest rate for Renminbi-denominated loans and the minimum interest rate for Renminbi-denominated deposits. Thereafter, PBOC continued to lower the minimum interest rate for loans on repeated occasions. In June 2012, PBOC adjusted the maximum interest rate for deposits to 110 per cent. of the relevant benchmark deposit rate and the minimum interest rate for loans to 80 per cent. of the relevant benchmark lending rate. In July of the same year, PBOC again adjusted the minimum interest rate for loans to 70 per cent. of the relevant benchmark lending rate. On 20 July 2013, PBOC entirely removed lending rate control by eliminating the minimum interest rate for loans (except for individual residential mortgage loans) and removing controls on bill discount rates. On 25 October 2013, PBOC introduced a new prime lending rate, officially known as the "loan prime rate", which is based on a weighted average of lending rates from nine commercial banks. In recent years, PBOC has adjusted the benchmark interest rates several times. On 22 November 2014, PBOC lowered the one-year Renminbi benchmark loan interest rate by 0.4 percentage point to 5.6 per cent. and raised the one-year Renminbi benchmark deposit interest rate by 0.25 percentage point to 2.75 per cent. On 1 March 2015, PBOC further lowered the one-year Renminbi benchmark loan interest rate by 0.25 percentage point to 5.35 per cent. and lowered the one-year Renminbi benchmark deposit interest rate by 0.25 percentage point to 2.5 per cent. On 11 May 2015, PBOC further lowered both the one-year Renminbi benchmark loan interest rate and one-year Renminbi benchmark deposit interest rate by 0.25 percentage point to 5.1 per cent. and 2.25 per cent. respectively. On 24 October 2015, PBOC further lowered both the one-year Renminbi benchmark loan interest rate and one-year Renminbi benchmark deposit interest rate by 0.25 percentage point to 4.35 per cent. and 1.5 per cent., respectively. Moreover, the upper limit of the interest rate floating range of the Renminbi-denominated deposits in commercial banks was removed by PBOC on 24 October 2015. Going forward, PBOC may further liberalise the existing interest rate restrictions on Renminbi-denominated loans and deposits. If the existing regulations are substantially liberalised or eliminated, competition in the PRC's banking industry will likely intensify as the PRC's commercial banks seek to offer more attractive interest rates to customers. Further liberalisation by PBOC may result in the narrowing of the spread in the average interest rates between Renminbi-denominated loans and Renminbi-denominated deposits, thereby materially and adversely affecting the Group's business, financial condition and results of operations which in turn may negatively affect the Group's ability to service the Notes and to satisfy its other obligations under the Notes.

The PRC regulations impose limitations on the types of investments the Group may make and, as a result, the Group has limited ability to seek optimal investment returns to diversify its investment portfolio and to hedge the risks of its Renminbi-denominated assets

The government of the PRC (the "**PRC Government**") has imposed limitations on what a commercial bank may invest in. These permitted investments by issuers mainly include debt securities of:

- the government;
- public sector and quasi-government;
- policy banks;

- financial institutions; and

- corporates.

These investment restrictions limit the Group's ability to seek optimal returns on its investments. The restrictions may also expose the Group to significantly greater risk of investment loss in the event that a particular type of investment it holds suffers a decrease in value. In addition, due to the limited hedging tools available to it, the Group's ability to manage market and credit risks relating to its Renminbi-denominated assets is limited and any resulting decline in the value of its Renminbi-denominated assets may materially and adversely affect its business, financial condition and results of operations.

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

National credit information databases developed by PBOC have been in operation since January 2006. However, as the information infrastructure in the PRC is still under development and there remains limitations on the availability of information, national credit information databases are generally under-developed and are not able to provide complete credit information on many of the Group's credit applicants. Until the PRC has further developed and fully implemented its nationwide unified credit information database on corporate borrowers, the Group has to rely on other publicly available resources and its internal resources to supplement what is currently available on the nationwide unified credit information database for enterprises. These sources of data and information are not sufficiently complete or effective for the robust credit risk management system that the Group attempts to build. Therefore, there can be no assurance that the Group's assessment of the credit risks associated with any particular customer is based on complete, accurate and reliable information, which materially and adversely affects the Group's ability to effectively manage its credit risk.

The Group is subject to certain operational requirements as well as guidelines set by the PRC banking regulatory authorities, such as maintaining a capital adequacy ratio

The Group is subject to certain operational requirements and guidelines set by the PRC banking regulatory authorities. CBIRC requires all commercial banks in the PRC to maintain certain financial ratios throughout its operations.

In recent years, CBIRC has issued several regulations and guidelines governing capital adequacy requirements applicable to commercial banks in the PRC. In April 2011, CBIRC promulgated the Guideline Concerning the Implementation of New Regulatory Standards for the PRC Banking Industry to clarify the direction for future regulations and the requirement for prudent regulatory requirements. In June 2012, CBIRC promulgated the CBIRC Capital Regulations which sets out the new requirements for capital adequacy which became effective on 1 January 2013, the minimum capital adequacy ratio, tier 1 capital adequacy ratio and common equity tier 1 capital adequacy ratio for commercial banks to meet by the end of 2018 are 8 per cent., 6 per cent. and 5 per cent., respectively. On 30 November 2012, CBIRC issued the Notice of the China Banking Regulatory Commission on Issues concerning Transitional Arrangements for the Implementation of the Administrative Measures for the Capital of Commercial Banks (for Trial Implementation), which sets out the requirements for capital adequacy ratio during the phase-in period. As a domestic systematically important bank and a global systematically important bank, the Group is subject to additional capital requirements of the CBIRC and the Basel Committee. As at 30 June 2021, the Group's capital adequacy ratio, tier 1 capital adequacy ratio and common equity tier 1 capital adequacy ratio (calculated in accordance with the advanced approach under CBIRC Capital Regulations) were 15.61 per cent., 12.72 per cent. and 10.80 per cent., respectively.

Although the Group is currently in compliance with the capital adequacy requirements, there can be no assurance that CBIRC will not issue new regulations to heighten the capital adequacy ratios requirements, particularly in the light of the implementation of the new Basel III. Any change in calculation of capital adequacy ratios by CBIRC may also affect the Group's compliance with capital adequacy ratios. There can be no assurance that the Group will be able to meet these requirements in the future at all times. If the Bank fails to meet the capital adequacy requirements, CBIRC may require the Bank to take corrective measures, such as restricting the growth of its loans and other assets or restricting its declaration or distribution of dividends. These measures could materially and adversely affect the Bank's business, financial condition and results of operations.

In order to support its steady growth and development, the Group may need to raise more capital to ensure that its capital adequacy ratios comply with the regulatory requirements. In its capital raising plan in the future, the Group may issue any equity securities that can replenish the Tier 1 capital or any debt securities that can replenish the Tier 2 capital. The Group's capital-raising ability may be restricted by the Group's future business, financial condition and results of operations, the Group's credit rating, regulatory approvals and overall market conditions, including Chinese and global economic, political and other conditions at the time of capital raising.

The PRC regulators have implemented measures relating to lending to small and medium-sized enterprises ("SMEs") and the Group may be affected by future regulatory changes

CBIRC has promulgated a series of measures to encourage banking institutions to implement the PRC Government's macroeconomic policies, and, in particular, to proactively support continued healthy economic growth by increasing lending activities to SMEs while effectively controlling risk. However, SMEs are more vulnerable to fluctuation in the macro-economy as compared to large enterprises due to relatively limited capital, management or other resources required to cope with the adverse impact of major economic or regulatory changes. In addition, SMEs may not be able to provide reliable information necessary for the Bank to assess the credit risks involved. In the absence of accurate assessment of the relevant credit risks, the non-performing loans of the Bank may be significantly increased if its small and medium-sized enterprise clients are affected by economic or regulatory changes, which could materially and adversely affect the Group's business, results of operations and financial condition.

In addition, there can be no assurance that the policies, laws and regulations governing the PRC banking industry, in particular, those relating to lending to SMEs (e.g. incentive policies to encourage lending to SMEs), will not change in the future or that any such changes will not materially and adversely affect the Group's business, financial condition and results of operations.

Risks relating to the Group's Business

If the Group is unable to effectively control and reduce the level of impaired loans and advances in its current loan portfolio and in new loans the Group extends in the future, or if the Group's allowance for loan impairment losses on loans and advances is insufficient to cover actual loan losses, its financial condition and results of operations may be materially and adversely affected

The Group's results of operations have been and will continue to be negatively impacted by its impaired loans. According to International Financial Reporting Standards ("**IFRS**"), being the set of accounting principles that are applicable to the Group, loans are impaired if there is objective evidence that the Group will not be able to collect all amounts due according to the original contractual terms of loans. As at 30 June 2021, the Group's non-performing loans under its five-category loan classification were RMB200.348 billion, representing an NPL ratio of 1.30 per cent. The Group seeks to continue to improve its credit risk management policies, procedures and systems, and has been able to effectively control the level of its impaired loans, despite the financial turmoil in global markets.

The amount of the Group's reported impaired loans and the ratio of the Group's impaired loans to its loans and advances to customers may increase in the future for a variety of reasons, including factors which are beyond the Group's control, such as a slowdown in economic growth and other adverse macroeconomic trends in the PRC or a deterioration in the financial condition or results of operations of the Group's borrowers, which could impair the ability of the Group's borrowers to service their debt. There can be no assurance that the Group will be able to maintain or lower its current impaired loan ratio in the future or that the quality of its existing or future loans and advances to borrowers will not deteriorate. As a result of the PRC Government's economic stimulus programmes, many PRC banks, including the Group, experienced high growth in their loan scale in the past. This increase in bank loans may lead to elevated impaired loan ratios and loan loss provisions as well as increasing strain on the Group's risk management resources, which may affect the quality of its loan portfolio.

As at 30 June 2021, the balance of the Group's allowance for loan impairment losses (including allowance for loans at amortised costs and allowance for loans at fair value through other comprehensive income) was RMB369.168 billion and the coverage ratio of allowance for loan impairment losses to NPLs was 184.26 per cent. The Group's allowance for loan impairment losses is affected by various factors, including the quality of the Group's loan portfolio, the Group's borrowers' financial condition, repayment ability and repayment intention, the realisable value of any collateral, the extent of any guarantees, the industry in which the borrower operates, as well as general economic and business conditions. Many of these factors are beyond the Group's control. Furthermore, the adequacy of the Group's allowance for loan impairment depends to a significant extent on the reliability of, and its skills in utilising, its model for determining the level of allowance, as well as its system of data collection. The limitations of the Group's model, its lack of experience in using the model and deficiencies in its data collection system may result in inaccurate and insufficient allowance for impairment losses. As a result, the Group's actual loan impairment losses could prove to be different from its estimates and could exceed its allowance. If the Group's allowance for impairment losses on loans and advances proves insufficient to cover actual losses, it may need to make additional allowance for losses, which could significantly reduce its profit and adversely affect its business, financial condition and results of operations.

If the Group is unable to realise the collateral or guarantees securing its loans to cover the outstanding principal and interest balance of its loans, its financial condition and results of operations may be adversely affected

A substantial portion of the Group's loans is secured by collateral. The Group's loan collateral primarily includes real estate and other financial and non-financial assets located in the PRC, the value of which may fluctuate due to factors beyond the Group's control, including macroeconomic factors affecting the PRC economy. In particular, an economic slowdown in the PRC may lead to a downturn in the PRC real estate market, which may in turn result in declines in the value of the collateral securing many of the Group's loans to levels below the outstanding principal balance of such loans. Any decline in the value of the collateral securing the Group's loans may result in a reduction in the amount the Group can recover from collateral realisation and an increase in its impairment losses.

In addition, a considerable portion of the Group's domestic loans are guaranteed. The Group's exposure to guarantors is generally unsecured, and a significant deterioration in the financial condition of these guarantors increases the risk that the Group may not be able to recover the full or any amount of such guarantees if needed and when required.

Furthermore, the guarantee provided by such guarantors may be determined by the court as invalid if the relevant guarantor fails to comply with applicable PRC laws and regulations.

The Group has granted loans to certain overcapacity sectors, the real estate sector and local government financing vehicles ("LGFVs") and any extended downturn in or change in national policies towards the overcapacity sectors, the real estate sector and LGFVs may adversely affect the Group's financial condition, results of operations and prospects

Loans to Overcapacity Sectors, High Energy Sectors and High Pollutant Emission Sectors

The Group has granted loans to industries and sectors featured by high energy consumption and high pollutant emission and implemented differentiated credit policies in relation to overcapacity sectors.

In the past few years, the Bank has adopted a relatively stringent criteria for extending loans to the overcapacity sector with priority given to the enterprises under key projects of the State or leading enterprises within the industry; meanwhile, the Bank has stepped up efforts in loan restructuring and withdrawn from enterprises that are not compliant with the State's industrial policies. The overall asset quality of loans to overcapacity sectors is maintained at a satisfactory level with the loans primarily going to the leading enterprises within the industry and is therefore better protected against risks. However, if the problem of overcapacity in China continues to aggravate and the relevant enterprises receiving credit facilities from the Bank are unable to implement technology upgrade in a timely manner to stay competitive, the quality of loans to the above sectors may be adversely affected.

Real Estate Sector

The Group's loans and advances to the real estate sector primarily comprise loans issued to real estate companies and individual housing loans.

With respect to its real estate loans, the Group follows strictly its credit risk management procedures, including on-going credit monitoring of borrowers' financial information, and strictly enforcing repayment schedules. In addition, the Group has established a regional risk alert system and loan policy adjustment mechanism applicable to the real estate sector.

The Group has instructed its branches to strengthen research of regional and local real estate market conditions, adjust credit guidelines applicable to real estate loans and implement different credit limits to reflect different levels of risk for these loans. The PRC real estate market is subject to volatility and property prices have experienced significant fluctuations in recent years. The PRC Government has plans to and has already implemented certain macroeconomic control and other adjustment measures aiming at managing these fluctuations and preventing the real estate market from over-heating. These policies may have an adverse effect on the growth of the Group's loans to the real estate industry, the quality of loans extended to the real estate industry and the quality of the Group's mortgage loan portfolio. In addition, if the real estate market in the PRC experiences a significant downturn, the value of the real estate securing the Group's loans may decrease, resulting in a reduction in the amount the Group can recover on its loans in the event of default. This may in turn materially and adversely affect the Group's asset quality, business, financial condition and results of operations.

LGFVs

LGFVs are legal entities formed by local governments which are primarily responsible for utilisation of financial capitals and external financing in relation to urban infrastructure. Loans to LGFVs are a part of the loan portfolio of commercial banks in PRC, including the Group's. The Group's loans to LGFVs are primarily utilised by infrastructure projects including transportation and urban projects and land reserve centres. A majority of these projects comprise of loans to provincial-and municipal-level platforms with terms of less than 10 years and are mainly fully or partially covered by operating cash flows of the projects.

The Group attaches great importance to the credit management of LGFVs and has undertaken a series of measures, such as access lists, industry quotas, debt limitation models and regular review, to reduce credit risks associated with loans to LGFVs. The Group intends to further strengthen the risk management of LGFVs. Although the Group has taken a variety of credit risk management measures, it may not discover all potential risks associated with irregular operations, large debts and unsustainable revenues of LGFVs or the potential reform or elimination of non-compliant entities by local governments. In addition, as local government revenues are primarily derived from taxes and land premiums, the economic cycles and fluctuations in the real estate market may also adversely affect the quality of such loans. There can be no assurance that the LGFVs will be able to fulfil their obligations under the terms of the loans on time or at all. Any failure by these LGFVs to fulfil their loan obligations may have a material and adverse effect on the Group's business, financial condition and results of operations.

The formal implementation of the deposit insurance scheme may adversely affect the Group's deposit-taking business and financial position

The Deposit Insurance Regulations formulated by the State Council came into effect on 1 May 2015, which will result in the formal establishment of a deposit insurance scheme in the PRC. The Deposit Insurance Regulations requires that the commercial banks and other deposit-taking banking financial institutions established in the PRC shall take out deposit insurance and pay deposit insurance premiums to relevant deposit insurance fund management institutions, with such premiums to be used as deposit insurance funds to compensate depositors in the event of the liquidation or similar event of any PRC bank. Under the deposit insurance scheme, upon the liquidation or similar event of any PRC bank, the maximum compensation that a depositor may receive on the total principal and accrued interest deposited with such PRC bank will be capped at RMB500,000.

The deposit insurance premiums to be paid by the Bank in accordance with the Deposit Insurance Regulations and other relevant laws and regulations will increase the Group's operating costs and capital requirements. Furthermore, the deposit insurance scheme may increase competition among PRC banks for deposits as some depositors may consider spreading out their deposits with different PRC banks. This may result deposits currently held with the Group being transferred by depositors to other PRC banks as well as the Group having to offer higher interest rates to retain existing, and attract new, depositors, which may have an adverse effect on the Group's business, financial position and operating results.

Any deficiencies in the Group's risk management and internal control system may adversely affect the Group's financial condition and results of operations

With the expansion of its business, products and services, the Group may face significant challenges in risk management and may need to further improve its risk management system. For example, in addition to commercial banking services, the Group provides investment banking, insurance, direct investment, fund management and aircraft leasing services. The risks related to these services are different from those related to commercial banking services. The Group has adopted measures, policies and procedures to improve its risk management and internal control system and strengthen consolidated balance sheet risk management. However, such measures, policies and procedures may not be effective in managing the relevant risks. As a result, the Group's risk management and internal control system still need to be improved. Any deficiencies in the Group's risk management system may affect the Group's ability to respond to these risks. If the risk management system of the Group is unable to effectively manage relevant risks, its financial condition and results of operations may be adversely affected.

The Group assesses specific risks of single corporate clients as well as its overall credit risk through an internal credit assessment system. Its system involves detailed analysis of its borrowers' credit risk, taking into account both quantitative and qualitative factors. Therefore, the Group may be exposed to risks associated with inaccurate assessments. The effectiveness of the Group's credit rating system is also limited by the information available to it and the credit history of its borrowers. The Group has improved its credit policies and guidelines to better process potential risks relating to certain industries, including the real estate industry, and certain borrowers, including affiliated companies and group enterprises. However, the Group may fail to identify these risks on a timely basis given the limited resources and tools available to it. If the Group fails to effectively enforce, constantly follow or continue to improve its credit risk management policies and guidelines, its business operations, financial results and reputation may be materially and adversely affected.

The Group continues to improve its internal control system. The Group's Risk Management and Internal Control Committee under its senior management as well as the risk management and internal control committees of the Group's branches are responsible for ensuring the effective performance of the Group's internal control system. The Group expends significant effort on the development of its internal control system, improvement of its management mechanisms including internal control examination, modification and monitoring of workflow and internal control and compliance assessment, enhancement of the standardisation of management procedures, and strengthening of monitoring of key internal control measures and key positions. In addition, by further increasing the independence, professional competence and effectiveness of its internal audit function, the Group continuously improves its internal audit in overall business and risk management and strengthens the communication between its internal audit committee and external auditor as well as between the management and the internal audit department. However, if the Group's internal control system is not effectively implemented or consistently applied, the Group's business operations, financial results and reputation may be adversely affected.

The Group may encounter difficulties in effectively implementing centralised management and supervision of its branches and subsidiaries, as well as consistently applying of its policies throughout the Bank, and may not be able to timely detect or prevent fraud or other misconduct by its employees or third parties

The Group's branches and subsidiaries historically have significant autonomy in their respective operations and managements. In the past, the Group was not always able to timely detect or effectively prevent failures in management at the branch or subsidiary level. In addition, due to limitations in information systems and differences between domestic and overseas regulatory policies, the Group's efforts in detecting or preventing such failures may not be implemented consistently and may not be sufficient to prevent all irregular transactions or incidents.

The Group may be subject to fraud and other misconduct committed by its employees, customers or other third parties, which could adversely affect its business operations and reputation. Common weaknesses that facilitate fraud include inadequate segregation of duties, insufficient internal controls and noncompliance with the Group's internal control policies by the employees. While the Group has implemented measures aimed at detecting and minimising employees' and third parties' misconduct and fraud, it may not always be able to timely detect or prevent such misconduct, and it may need to continue to improve its current, and implement new, policies and measures. If the Group is unable to effectively manage and supervise its branches and subsidiaries, it may not be able to detect or prevent fraud or other misconduct of its employees or third parties in a timely manner, which may result in damage to its reputation and an adverse effect on its business, financial condition, results of operations and prospects.

The Group is subject to fluctuations in interest rates and exchange rates and other market risks

The Group's results of operations significantly depend on its net interest income. Fluctuations in interest rates could adversely affect the Group's financial condition and results of operations in different ways. For example, a fall in interest rates may result in a decrease in the interest income of the Bank and an increase in interest rates will normally result in a decline in the value of its fixed rate debt securities. Moreover, the gradual liberalisation of the regulation of interest rates may result in greater interest rate volatility as well as intensified competition in deposit and lending businesses. Such competition could result in an increase in cost of funds and a decrease in pricing on loans, which in turn could lead to a decrease in the Group's net interest income. In addition, despite the withdrawal of interest rate regulations on loans which allows the Group to charge different interest rates to borrowers with different credit ratings, the Group may not be able to benefit from such measures due to increased competition. A significant portion of the Group's outstanding interest-earning assets and, interest-bearing liabilities are denominated in foreign currencies. As a result, the Group's financial condition and results of operations are also affected by fluctuations in the interest rates associated with these foreign currencies.

The Group conducts a substantial portion of its business in Renminbi, with certain transactions denominated in U.S. dollars, HK dollars and, to a much lesser extent, other currencies. The Group's primary subsidiary, Bank of China (Hong Kong) Limited ("**BOCHK**"), conducts a substantial portion of its business in HK dollars and Renminbi. The Group endeavours to manage fund source and application to minimise potential mismatches in accordance with management directives. However, the Group's ability to manage its foreign currency positions in relation to the Renminbi is limited as the Renminbi is not a completely freely convertible currency.

The value of Renminbi against U.S. dollar, Euro and other currencies fluctuates and is affected by many factors, such as changes in political and economic conditions in the PRC and globally. On 21 July 2005, the PRC

Government introduced a managed floating exchange rate system to allow the value of Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. In July 2008, the PRC Government announced that its exchange rate regime would change into a managed floating mechanism based on market supply and demand. Given domestic and overseas economic developments, PBOC adjusted the Renminbi exchange rate regime in April 2012 to enhance the flexibility of the Renminbi exchange rate. The PRC Government may make further adjustments to the exchange rate system in the future. Any appreciation of Renminbi against U.S. dollar, Euro or any other foreign currency may result in a decrease in the value of the Group's foreign currency-denominated assets. Conversely, the Group is required to obtain approval from the SAFE before converting foreign currencies into Renminbi for non-current account transactions, such as repayment of the principal of loans and equity investments. All these factors may adversely affect the Group's business, financial condition and results of operations, as well as its compliance with the capital adequacy ratios and operating ratios requirements.

To the extent the Group's foreign currency-denominated assets and liabilities cannot be matched in the same currency or appropriately hedged, fluctuations in foreign currency exchange rates against Renminbi may adversely affect the Group's financial condition and results of operations.

There are operational risks associated with the Group's industry which, if realised, may have an adverse impact on its business operation

Like all other financial institutions, the Group is exposed to many types of operational risks, including the risk of fraud, unauthorised transactions or other misconduct by employees (including the violation of regulations for the prevention of corrupt practices, as well as other regulations governing the Group's business activities), or operational errors, including clerical or record keeping errors or errors resulting from computer or telecommunications systems failure. The Group is also exposed to the risk that external vendors may fail to fulfil their contractual obligations to it (or will be subject to the same risk of fraud or operational errors by their employees). Moreover, the Group is exposed to the risk that its (or its vendors') business continuity and data security systems prove not to be sufficient in case of a system failure or natural disaster.

Given the Group's high volume of transactions, certain errors may be repeated or compounded before they are discovered and successfully rectified. In addition, the Group's dependence upon automated systems to record and process transactions may further increase the risk of technical system flaws or employee tampering or manipulation of those systems. The Group may also be subject to disruptions of its operating systems, arising from events that are wholly or partially beyond its control (including, for example, natural disasters, external network attacks or electrical or telecommunication outages), which may give rise to a deterioration in customer service and to loss or liability to it. Although, like all banks, the Group maintains monitoring and controlling system designed to reduce operational risks, the Group has suffered losses from operational risks and there can be no assurance that the Group will not suffer losses from operational risks in the future. The Group's reputation could be adversely affected by the occurrence of any such events involving its employees, customers or third parties. In addition to internal factors that may affect the Group's operations, the rapid growth and expansion of its business in recent years may have also resulted in increasing complexity in its internal and external control systems and risk management measures, which may add to its operational risks.

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

The Group has been expanding and intends to continue to expand the range of its products and services. Expansion of its business activities and product range exposes the Group to a number of risks and challenges, including the following:

- if the Group fails to promptly identify and expand into new areas of business to meet the increasing demand for certain products and services, the Group may fail to maintain its market share or lose some of its existing customers;

- the Group may not have sufficient experience or expertise in certain new products and services and may not compete effectively in these areas;

- the new products and services may not be accepted by the Group's customers or meet its expectations for profitability;

- the new products and services may give rise to potential disputes or claims from customers;

- the Group may not be able to hire new personnel or retrain current personnel to enable it to conduct new business activities;

- the Group may fail to obtain regulatory approval for its new products or services; and

- the Group may not be successful in enhancing its risk management capabilities and information technology systems to support a broader range of products and services. If the Group is unable to achieve the intended results from the expansion of its range of products and services, its business, financial condition and results of operations may be materially and adversely affected.

The continuous rapid growth of the business of the Bank raises higher requirements on management and operation levels and brings various risks and challenges to the Bank. Regardless of the Bank's active efforts in improving corporate structure and governance, it takes time for the Bank to implement the relevant measures and the relevant measures may be unable to enhance such aspects of the Bank as corporate structure and governance as anticipated.

The Bank may require additional capital in order to sustain its business growth. The ability of the Bank to increase capital is subject to various factors, including the Bank's future financial conditions, the approval from governmental and regulatory authorities and the overall conditions of the market.

If the Bank fails to keep growing at the current speed or any new business activity may not achieve expected results or the Bank fails to increase capital and successfully address risks and challenges brought by rapid growth, the Group's business, financial condition, results of operations and prospects may be adversely affected.

The Group is subject to credit and liquidity risks with respect to certain off-balance sheet commitments

In the normal course of its business, the Group makes commitments and guarantees which are not reflected as liabilities on its statement of financial position, including commitments, guarantees and letters of credit relating to the performance of its customers. The Group is subject to the credit risk of its customers as a result of these off-balance sheet undertakings. Over time, the creditworthiness of the Group's customers may deteriorate and the Group may be called upon to fulfil its commitments and guarantees in case any of its customers fail to perform their obligations owed to third parties. If the Group is unable to obtain payment or indemnification from its customers in respect of these commitments and guarantees, its business, financial condition and results of operations may be adversely affected.

The Group is subject to the supervision and inspection of regulators in jurisdictions where it operates

The Group is subject to supervision and regular and irregular inspection by the PRC's regulatory institutions and other administrative institutions, including the Ministry of Finance, PBOC, CBIRC, China Securities Regulatory Commission ("**CSRC**"), the State Administration of Taxation, the State Administration of Industry & Commerce, SAFE, the National Development and Reform Commission (the "**NDRC**") and the National Audit Office and their local counterparts where the Group operates. The Group's branches and regulated subsidiaries must follow local laws, regulations and regulatory requirements of relevant local regulatory institutions. There can be no assurance that the Group's branches and sub-branches will be able to meet the applicable laws and regulatory requirements at all times. Any failure of the Group to meet these requirements may result in fines, penalties or sanctions which may adversely affect the Group's operations, reputation, business, financial position and results of operations.

The Group implements sanctions compliance policies in accordance with relevant external sanctions regulations. Changes in these sanction regulations could change from time to time

The U.S. currently imposes various economic sanctions, which are administered by the U.S. Treasury Department's Office of Foreign Assets Control and the U.S. State Department. For instance, U.S. persons can be prohibited from engaging in any transactions with a designated target of certain sanctions, including the purchase and sale of, and receipt of payments under, securities issued by such designated target. Similar sanctions are administered by the UK, the European Union, United Nations Security Council and other applicable jurisdictions. These sanctions are intended to address a variety of policy concerns, among other things denying certain countries, and certain individuals and entities, the ability to support international terrorism and to pursue weapons of mass destruction and missile programmes. Countries which are currently subject to sanctions for different reasons include but not limited to Cuba, Iran, Libya, Myanmar, North Korea, Syria and Sudan.

The Group attaches great importance to sanctions compliance and effectively enforces sanctions regulations by the United Nations Security Council, the PRC, the U.S., the European Union and other jurisdictions relating to its overseas operations. The Group's policy is to not provide any financial service to any sanctioned countries or entities or individuals that are subject to sanctions regulations. Sanctions regulations will change from time to time, and any such changes above could adversely affect the Group's business, results of operation and financial condition.

The Group is subject to risks associated with its derivative transactions and investment securities

The Group enters into derivative transactions primarily for trading, asset and liability management and on behalf of its customers. There are credit, market and operational risks associated with these transactions. In addition, there is not a complete set of market practice and documentation records in the PRC's derivative market and the PRC courts have limited experience in dealing with issues related to derivative transactions. This may further increase the risks associated with these transactions. In addition, the Group's ability to monitor, analyse and report these derivative transactions is subject to the development of the Group's information technology system. As a result, the Group's financial condition and results of operations may be adversely affected by these derivative transactions.

The investments of the Group in securities including bonds, shares or other financial instruments, both domestically issued in the PRC and offshore. Such investments are subject to credit, market liquidity and other types of risks associated with such investments.

The Group will continue to closely follow up with the developments in the international financial markets and assess impairment allowances on related assets in a prudent manner in accordance with IFRS. Any non-performance or default by the counterparty or volatility of the markets or liquidity of the markets in which may have an adverse effect on the Group's financial condition and results of operations.

The Group's liquidity may be adversely affected if it fails to maintain its deposit growth or if there is a significant decrease in its deposits

Most of the funding requirements of the Group's commercial banking operations are met through short-term funding, principally in the form of deposits, including customer and inter-bank deposits. Although the Group has established a liquid assets investment portfolio to supplement its on-going liquidity needs, it continues to rely primarily on customer deposits to meet its funding needs. While the Group's short-term customer deposits have been a stable and predictable source of funding, there can be no assurance that the Group will always be able to rely on this source of funding. If the Group fails to maintain its deposit growth or if there is a significant decrease in its deposits, the Group's liquidity position, business, financial condition and results of operations may be adversely affected. Should any of these events occur, the Group may need to seek more expensive sources of funding to meet its funding requirements.

In addition, there are mismatches between the maturity of the Group's assets and the maturity of its liabilities. If the mismatches between the maturity of its assets and the maturity of its liabilities widen significantly, the Group's liquidity position could be adversely affected and funding from higher-cost source has to be obtained. Furthermore, the Group's ability to obtain additional funds may also be affected by other factors, including factors beyond the Group's control, such as the deterioration of overall market conditions, disturbances to the financial markets or a downturn in the industries where it has substantial credit exposure. All of these factors may result in significant adverse effects on the Group's liquidity, business, financial position and results of operations. See also "*Risk Factor – Risks Relating to the PRC Banking Industry*" for additional information relating to the PRC banking regulatory regime.

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

The Group determines a level of allowance for impairment losses and recognises any related provisions made in a year using the concept of impairment under International Financial Reporting Standard No. 9 – Financial Instruments ("**IFRS 9**"). The Group's provisioning policies may be different in certain respects from those of banks incorporated in certain other countries or regions which do not assess loans under IFRS 9. As a result, the Group's allowance for impairment losses, as determined under those provisioning policies, may differ from those that would be reported if it was incorporated in those countries or regions.

The Group classifies its loans as "pass", "special-mention", "substandard", "doubtful" and "loss" by using the five-category classification system according to requirements of CBIRC. Its five-category classification system may be different in certain respects from those banks incorporated in certain other countries or regions. As a result, it may reflect a different degree of risk than what would be reported if the Group was incorporated in those countries or regions.

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

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

While the Group has adopted policies and procedures aimed at detecting and preventing the use of its banking network for money laundering activities or by terrorists and terrorist-related organisations and individuals generally, such policies and procedures may not completely eliminate instances where the Group may be used by other parties to engage in money laundering or other illegal or improper activities. To the extent the Group may fail to fully comply with applicable laws and regulations, the relevant government agencies to whom the Group reports have the power and authority to impose fines and other penalties on the Group, which may materially and adversely affect the Group's reputation, business, financial condition and results of operation.

The Group's business is highly dependent on the proper functioning and improvement of its information technology systems. Malfunction of or failure to improve or upgrade the information technology systems timely could have an adverse effect on the Bank's business

The Group is highly dependent on the ability of its information technology systems to accurately process a large number of transactions across numerous and diverse markets and products in a timely manner. The proper functioning of the Group's financial control, risk management, accounting, customer service and other data processing systems, together with the communication networks among the Group's various branches and sub-branches and its main data processing centres, are critical to the Group's business operations and its ability to compete effectively. The Group has developed an information system operation and management procedure based on the best practice and passed the certification of ISO 20000 standard of information technology ("**IT**") operation and maintenance. The Group has established information security management system covering areas such as physical environment security, operational security, access control and information security event management. Such security management system complies with international standards and is certified with ISO 27001 international standards. The Group has developed a comprehensive IT emergency response mechanism and work process to cope with IT emergencies and formulated contingency plans covering all application systems, infrastructure and key equipment, which ensures prompt and effective response to IT emergencies. The Group has maintained backup data and developed a disaster recovery process under the "two locations and three centres" framework to ensure the continued function of the information system in disastrous events and the ability to cope with regional disastrous events effectively. However, the Group's operations may be materially disrupted if there is fatal malfunction or regional major disaster. In addition, any security event caused by loss or corruption of data and malfunction of software, hardware or other computer equipment could have a material and adverse effect on the Group's reputation, business, financial condition and results of operations.

The Group's ability to remain competitive will depend largely on its ability to upgrade its IT systems on a timely and cost-effective basis. In addition, the information available to and received by the Group through its existing IT systems may not be timely or sufficient enough for it to manage risks and plan for, and respond to, market changes and other developments in its current operating environment. As a result, the Group is making and intends to continue making investments to improve or upgrade its IT systems. Any failure to improve or upgrade its IT systems effectively or on a timely basis could adversely affect the Group's competitiveness, business, financial condition and results of operations.

Internet banking services involve risks of security breaches

Internet banking activities involve the electronic storage and transmission of confidential information, which are vulnerable to unauthorised access, external network attacks and other disruptions. These possible security threats could expose the Group to liability and damage its reputation. Costs incurred in preventing security threats may be high and may adversely affect the Group's business, financial condition and results of operations. The failure of the Group to detect any defects in software products which are used in providing its internet banking services and an unexpected and sudden high volume of internet traffic may have an adverse effect on the Group's internet banking business.

There can be no assurance of the accuracy or comparability of facts, forecasts and statistics contained in the Offering Circular with respect to the Bank, the Group, the PRC, its economy or its banking industry

Certain facts, forecasts and statistics in the Offering Circular relating to the PRC, the PRC's economy and global banking industries and the Bank's market share and ranking are derived from various official and other publicly available sources which are generally believed to be reliable. However, the Bank cannot guarantee the quality and reliability of such source materials. In addition, these facts, forecasts and statistics have not been independently verified by the Bank, the Group, or any of their respective directors, employees, representatives, affiliates or advisers and, therefore, none of them makes any representation as to the accuracy or fairness of such facts, forecasts and statistics, which may not be consistent with other information compiled within or outside the PRC and may not be complete or up to date. The Bank has taken reasonable care in reproducing or extracting the information from such sources. However, because of possibly flawed or ineffective methodologies underlying the published information or discrepancies between the published information and market practice and other problems, these facts, forecasts and other statistics may be inaccurate or may not be comparable from period to period or be comparable to facts, forecasts or statistics produced for other economies and should not be unduly relied upon.

Risks relating to the PRC

The slowdown of the PRC's economy caused in part by the recent challenging global economic conditions may adversely affect the Group

The Group relies, to a significant degree, on its domestic operations to achieve revenue growth. Domestic demand for banking services is materially affected by growth of private consumption and overall economic growth in the PRC. The global crisis in financial services and credit markets in 2008 has caused a slowdown in the economic growth in many countries, including the PRC. Although the PRC's economic growth has increased compared to its level immediately after the global financial crisis, it has displayed signs of slowdown as evidenced by a decrease in the growth rate of the PRC's gross domestic product ("**GDP**") in recent years. This was caused by a combination of factors most of which are beyond our control, such as the global economic conditions, governmental policies and changes in market dynamics globally and regionally. In 2018, the PRC Government reported a GDP of RMB90.03 trillion, representing year-on-year growth of 6.6 per cent. In 2019, the PRC Government reported a preliminary GDP of RMB99.0865 trillion, representing year-on-year growth of 6.1 per cent. In 2020, the PRC Government reported a preliminary GDP of RMB101.5986 trillion, representing year-on-year growth of 2.3 per cent. Although the PRC Government has recently taken several measures and actions with an aim to increase investors' confidence in the PRC economy, there can be no assurance that those measures will be effective. Furthermore, the sustained tension between the United States and China over trade policies could undermine the stability of the global economy. The United States and China have recently been involved in disputes over trade barriers that have escalated into a trade war between the two countries. Both countries have implemented tariffs on certain imported products from the other, casting uncertainty over tariffs and barrier to entry for products on both sides. The two governments have entered into an initial phase one agreement to resolve the disputes on 15 January 2020. However, there are uncertainties as to when and whether the phase two negotiations will begin and whether the two governments will fulfil their respective obligations under the phase one agreement. All these would add to the uncertainties relating to the overall prospects for the global and the PRC economies, which may have a material adverse impact to the Group's business, prospects, financial conditions and results of operations.

The Group's business may be affected by the PRC's economic, political and social conditions and the prospects of the industries in which its loans are concentrated

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

The PRC economy has been undergoing a transition from a planned economy to a market-oriented economy. A substantial portion of productive assets in the PRC is still owned by the PRC Government. The PRC Government also exercises significant control over the PRC's economic growth by allocating resources, setting monetary policy and providing preferential treatment to particular industries or companies. In recent years, the PRC Government has pushed forward a large number of economic reform measures to introduce market forces and promote the establishment of sound corporate governance structures. Such economic reform measures may be adjusted, modified or applied differently depending on the industries and regions of the country. As a result, the Group may not benefit from certain of such measures.

The PRC Government has the power to implement macroeconomic controls affecting the PRC's economy. The PRC Government has implemented various measures in an effort to control the growth rate of certain industries and restrain inflation. As measured by GDP, the PRC has been one of the world's fastest growing economies in recent years. The PRC's real GDP growth was 6.9 per cent. and 6.6 per cent. in 2017 and 2018, respectively. In 2019, the PRC Government reported a preliminary GDP of RMB99.0865 trillion, representing a year-on-year growth of 6.1 per cent. In 2020, the PRC Government reported a preliminary GDP of RMB101.5986 trillion, representing year-on-year growth of 2.3 per cent. However, the PRC may not be able to sustain such a growth rate. During the recent global financial crisis and economic slowdown, the growth of the PRC's GDP slowed down. (See "*– Risks relating to the PRC – The slowdown of the PRC's economy caused in part by the recent challenging global economic conditions may adversely affect us*" above.) If the PRC's economy experiences a decrease in growth rate or a significant downturn, any unfavourable business environment or economic condition for the Group's customers could negatively impact their ability or willingness to repay their loans and reduce their demand for the Group's banking services. As a result of the foregoing, the Group's business, financial condition and results of operations may be materially and adversely affected.

Interpretation and implementation of the PRC laws and regulations may involve uncertainties

The Bank is incorporated and exists under the laws of the PRC. The PRC legal system is based on written statutes. Since the late 1970s, the PRC has promulgated laws and regulations dealing with legal relations in respect of such economic matters as foreign investment, corporate organisation and governance, commerce, taxation and trade, with a view towards developing a comprehensive system of commercial law. However, as many of these laws and regulations are relatively new and continue to evolve, especially with respect to the PRC banking regulatory regime, these laws and regulations may be subject to different interpretations and inconsistently enforced. In addition, there is only a limited volume of published court decisions, which may be cited for reference but are not binding on subsequent cases and have limited precedential value. These uncertainties relating to the interpretation and implementation of the PRC laws and regulations may adversely affect the legal protections and remedies that are available to the Group in its operations and to holders of the Notes.

For example, NDRC issued the NDRC Circular on 14 September 2015, which came into effect on the same day. According to the NDRC Circular, domestic enterprises and their overseas controlled entities shall procure the registration of any debt securities issues outside the PRC with NDRC prior to the issue of the securities and notify the particulars of the relevant issues within 10 working days after the completion of the issue of the securities. The NDRC Circular is silent on the legal consequences of non-compliance with the pre-issue registration requirement. In the worst case scenario, if pre-issue registration is required but not complied with, it might become unlawful for the Issuer to perform or comply with any of its obligations under the Notes and the Notes might be subject to the enforcement as provided in Condition 15 (*Events of Default*). Potential investors of the Notes are advised to exercise due caution when making their investment decisions. Similarly, there is no clarity on the legal consequences of non-compliance with the post-issue notification requirement under the NDRC Circular.

On 11 January 2017, the PBOC promulgated the Circular on Issues concerning the Macro-prudential Management of Full-covered Cross-border Financing (Yin Fa [2017] No. 9) (中國人民銀行關於全口徑跨境融資宏觀審慎管理有關事宜的通知) (the "**2017 PBOC Circular**"). Under the 2017 PBOC Circular, financial institutions are required to file relevant operating rules and internal control policies and the details of the calculation of their outstanding foreign debt and foreign debt limit with PBOC or SAFE before making their first cross-border financing transaction and they are required to report to PBOC or SAFE of the amount of its capital fund and the financing agreement when a financing agreement is signed and before the drawdown of the loan or issue of debt securities, report its cross-border income after such drawdown, and report its cross-border payments after making interest or principal payments. In addition, financial institutions are also required to report to PBOC or SAFE on the fifth working day of each month on the foreign debt it has borrowed and the change in its outstanding foreign debt during the previous month. The Bank is one of the 27 designated banks required to carry out the aforesaid reporting procedures. The 2017 PBOC Circular is a new regulation and is subject to interpretation and application by relevant PRC authorities. The 2017 PBOC Circular applies to the issue of Notes under the Programme by the Bank or its onshore branches but does not explicitly state whether it applies to offshore branches of financial institutions incorporated in the PRC.

Further, for the purpose of calculating the risk-weighted cross-border financing balance as prescribed in the 2017 PBOC Circular, the foreign debt (including but not limited to the Notes) of offshore branches of financial institutions in the PRC are excluded from the calculation unless PBOC requires that the foreign debt be included if issue proceeds of the Notes is remitted into the PRC. If reporting is required but not complied with, PBOC and/or SAFE may, among other things, (a) issue a notice of censure, (b) request rectification within a time limit, (c) impose a penalty according to the Law of People's Republic of China on the People's Bank of China and the Regulation of the People's Republic of China on the Management of Foreign Exchanges, (d) suspend cross-border financing of the institution, and (e) collect risk reserves from the institution. In addition, in the worst case scenario, if reporting is required but not complied with, it might become unlawful for the Issuer to perform or comply with any of its obligations under the Notes and the Notes might be subject to the enforcement as provided in Condition 14 (Events of Default). Pursuant to the Approval by the Enterprise Borrowing Foreign Debt Registration Certificate of 2020 (企業借用外債備案登記證明》(發改辦外資備[2021]242號)) issued by the NDRC General Office on 24 March 2021 (the "NDRC Approval"), separate pre-issuance registration with NDRC with respect to the Notes is not required. This NDRC Approval is subject to interpretation and application by relevant PRC authorities and the above-described uncertainties that apply to the 2017 PBOC Circular also apply to such approval.

Any force majeure events, including future occurrence of natural disasters or outbreaks of contagious diseases in the PRC or elsewhere, may have an adverse effect on the Group's business operations, financial condition and results of operations

Any natural disasters or outbreaks of health epidemics and contagious diseases, including avian influenza, severe acute respiratory syndrome, or SARS, swine flu caused by H1N1 virus, or H1N1 Flu, and coronavirus disease 2019 ("**COVID-19**") may adversely affect the Group's business, financial condition and results of operations. Possible force majeure events may give rise to additional costs to be borne by the Group and have adverse effects on the quality of its assets, business, financial condition and results of operations. An outbreak of a health epidemic or contagious disease could result in a widespread health crisis and restrict the level of business activity in affected areas, which may in turn adversely affect the Group's business. In particular, the on-going COVID-19 pandemic has resulted in many countries, including China, Japan, the United States, members of the European Union and the UK, declaring a state of emergency and imposing extensive business and travel restrictions with a view to containing the pandemic. Widespread reductions in consumption, industrial production and business activities arising from the COVID-19 pandemic will significantly disrupt the global economy and global markets and is likely to result in a global economic recession. In addition, COVID-19 has led to significant volatility in the global markets across all asset classes, including stocks, bonds, oil and other commodities and this volatility may persist for some time. There is no assurance that the outbreak will not lead to decreased demand for services the Group provides; nor is there assurance that the outbreak's adverse impact on the PRC economy and the Group's customers will not adversely affect the level of non-performing loans. The outbreak may also adversely affect the Group's ability to keep normal operations and provide uninterrupted services to its customers. Moreover, the PRC has experienced natural disasters like earthquakes, floods and drought in the past few years. For example, in May 2008 and April 2010, the PRC experienced earthquakes with reported magnitudes of 8.0 and 7.1 on the Richter scale in Sichuan and Qinghai provinces respectively, resulting in the death of tens of thousands of people. Any future occurrence of severe natural disasters in the PRC may adversely affect its economy and in turn the Group's business. There can be no guarantee that any future occurrence of natural disasters or outbreak of avian influenza, SARS, H1N1 Flu, COVID-19 or other epidemics, or the measures taken by the PRC Government or other countries in response to a future outbreak of avian influenza, SARS, H1N1 Flu, COVID-19 or other epidemics, will not seriously interrupt the Group's operations or those of its customers, which may have an adverse effect on its business, financial condition and results of operations.

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

The Bank and a number of the Group's subsidiaries are incorporated in the PRC and a substantial portion of the Group's assets are located in the PRC. In addition, a number of the Group's directors and senior management reside within the PRC and the assets of the Group's directors and officers may be located within the

PRC. As a result, it may not be possible to effect service of process outside the PRC upon such directors and senior management, including for matters arising under applicable securities law. The Issuer and the Guarantor have irrevocably submitted to the exclusive jurisdiction of the Hong Kong courts in the transaction documents relating to the Notes. Hong Kong and the PRC have entered into certain arrangements on the reciprocal recognition and enforcement of judgments in civil and commercial matters (the "**Reciprocal Arrangements**") which allow for a final court judgment (relating to the payment of money or other civil or commercial proceeding) rendered by a Hong Kong court or PRC court (as the case may be) to be recognised and enforced in the PRC or Hong Kong (as the case may be), provided certain conditions are met. However, certain matters may be excluded under the Reciprocal Arrangements and a judgment may be refused to be recognised and enforced by the requested place in certain circumstances such as for public policy reasons or where the judgment was obtained by fraud. As a general matter, a judgment of a court of another jurisdiction may be reciprocally recognised or enforced if the jurisdiction has a treaty with the PRC or if judgments of the PRC courts have been recognised before in that jurisdiction, subject to the satisfaction of other requirements. The PRC signed the Hague Convention on Choice of Court Agreements (the "**Hague Convention**") in September 2017 which is intended to promote the use of exclusive choice of court agreements in international contracts and facilitate the creation of a recognition and enforcement regime for court judgements between contracting States. However, the signing of the Hague Convention does not have currently have any legal effect until it is ratified by the PRC Government. The PRC has not entered into treaties or arrangements providing for the reciprocal recognition and enforcement of judgments of courts with numerous countries, including Japan, the United States and the UK. Therefore, it may be difficult for Noteholders to enforce any judgments obtained from such foreign courts against the Group, the Guarantor or any of their respective directors or senior management in the PRC.

Risks Relating to the Global Economy

Uncertainties and instability in global market conditions could adversely affect the Group's business, financial condition and results of operations

The global economic slowdown and turmoil in the global financial markets that started in the second half of 2008 had a negative and lasting impact on the world economy, which in turn affected the PRC real estate industry and many other industries. Subsequently, global markets and economic conditions were adversely affected by the credit crisis in Europe, the credit rating downgrade of the United States and heightened market volatility in major stock markets. In addition, on 31 January 2020, the UK officially exited the European Union following a UK-EU Withdrawal Agreement signed in October 2019. The UK and the European Union will have a transition period until 31 December 2020 to negotiate, among others, trade agreements in detail. Given the lack of precedent, it is unclear how Brexit would affect the fiscal, monetary and regulatory landscape within the UK, the European Union and globally. This event has resulted in a downgrade of the credit ratings of the UK and the uncertainty before, during and after the period of negotiation may also create a negative economic impact and increase volatility in global markets.

The outlook for the world economy and financial markets remains uncertain. In Europe, several countries continue to face difficulties surrounding sovereign debt. In Asia and other emerging markets, some countries are expecting increasing inflationary pressure as a consequence of liberal monetary policy or excessive foreign fund inflow, or both. In the Middle East, Eastern Europe and Africa, political unrest in various countries has resulted in economic instability and uncertainty. China's economic growth may slow due to weakened exports as well as recent developments surrounding the trade-war with the United States. Starting in April 2018, the United States imposed tariffs on steel and aluminium imports from China, and later on 6 July 2018, the United States imposed 25% tariffs on U.S.$34 billion worth of Chinese goods as part of President Donald Trump's tariffs policy. In turn, the PRC responded with similarly sized tariffs on United States' products. On 18 September 2018, President Donald Trump imposed 10% tariffs on approximately U.S.$200 billion worth of Chinese goods and plans to further increase the rate to 25% in January 2019. In return, the PRC responded with tariffs on U.S.$60 billion of U.S. goods. The rhetoric surrounding the trade war continues to escalate and neither side has been willing to resume stalled trade negotiations. The amicable resolution of such a trade war remains elusive, and the lasting impacts any trade war may have on the PRC economy and the PRC real estate industry uncertain. Should the trade war between the United States and the PRC begin to materially impact the PRC economy, the purchasing power of our customers in the PRC would be negatively affected, which would have a material and adverse impact on our business, financial condition and results of operation. Moreover, as the PRC is transitioning to a consumption-based economy, the forecast growth rate of the PRC is expected to be significantly lower than its average growth rate over the past thirty years. In addition, the escalating tensions between the PRC and the United States, including ongoing trade disputes and deterioration in diplomatic relations, have contributed to increased market volatility, weakened consumer confidence and diminished expectations for economic growth around the world. Some of these tensions have manifested themselves through actions taken and sanctions imposed by the governments of the United States and the PRC in 2020 and early 2021. The United States has imposed a range of sanctions and trade restrictions on Chinese persons and companies, focusing on entities the United States believes are involved in human rights violations, information technology and communications equipment and services, and military activities, among others. In response, the PRC has announced a number of sanctions and trade restrictions that target or provide authority to target foreign officials and companies, including those in the United States. Heightened geopolitical tensions between the United States and the PRC continue to cause significant uncertainty in the global macroeconomy.

On 12 March 2020, the World Health Organisation declared COVID-19 as a global pandemic. The COVID-19 pandemic has resulted in many countries, including China, Japan, the United States, members of the European Union and the UK, declaring a state of emergency and imposing extensive business and travel restrictions with a view to containing the pandemic. Widespread reductions in consumption, industrial production and business activities arising from the COVID-19 pandemic will significantly disrupt the global economy and global markets and is likely to result in a global economic recession. In addition, COVID-19 has led to significant volatility in the global markets across all asset classes, including stocks, bonds, oil and other commodities and this volatility may persist for some time. As the COVID-19 pandemic continues to adversely affect business activities globally, governments and central banks across the world have introduced or are planning fiscal and monetary stimulus measures including direct subsidies, tax cuts, interest rates cuts, quantitative easing programmes and suspension or relaxation of prudential bank capital requirements. These measures aim to contain the economic impact of the COVID-19 pandemic, stabilise the capital markets and provide liquidity easing to the markets. In addition, the PRC regulators have promulgated a series of measures to encourage PRC financial institutions to increase financial support to business and consumers to combat the challenges arising from the COVID-19 pandemic.

The continuing slowdown of the global economy and increasing uncertainties in financial markets could adversely affect the Bank's business, financial condition and results of operations in many ways, including, among other things:

- during a period of economic slowdown, there is a greater likelihood that more of the Bank's customers or counterparties might default on their loan repayments or other obligations to the Bank, which, in turn, could result in the Bank recording a higher level of non-performing loans, allowance for impairment losses and write-offs;

- the increased regulation and supervision of the financial services industry, including the proposed implementation of new capital adequacy requirements under the Basel III, may restrict the Bank's business flexibility and increase its compliance and operating costs;

- the value of the Bank's investments in debt securities issued by overseas governments and financial institutions may significantly decrease;

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

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

Any potential market and economic downturns, economic slowdown or geopolitical uncertainties in the PRC, its neighbouring countries or regions or the rest of the world may exacerbate the risks relating to the PRC capital markets. In addition, global economic uncertainty and the slowdown in PRC economic growth have precipitated, and may continue to raise the possibility of, fiscal, monetary, regulatory and other governmental actions.

The Bank cannot assure the investors that the various macroeconomic measures and monetary policies adopted by the PRC Government will be effective in maintaining a sustainable growth in China's economy. If further economic downturn occurs, the Bank's businesses, financial condition and results of operations could be materially and adversely affected.

Please see also "*Risks Relating to the Group's Business*" and "*The Group is subject to risks associated with its derivative transactions and investment securities*" for further details.

Risks relating to the Notes issued under the Programme and the Guarantee of the Notes

The Issuer has no material assets and will rely on remittances from the Company and its subsidiaries to make payments under the Notes.

The Issuer will not conduct business or any other activities other than the offering, sale or issuance of indebtedness and the lending of the proceeds thereof to any company controlled, directly or indirectly, by the Company and any other activities in connection therewith or related thereto. The Issuer does not and will not have any material assets other than amounts due to it from the Company or its subsidiaries, and its ability to make payments under the Notes will depend on its receipt of timely remittances from the Company or its subsidiaries.

The ability of the Company to make payments to the Issuer is subject to, among other things, its cash flow conditions, restrictions contained in its articles of association, applicable laws, restrictions contained in its debt instruments and claims by its creditors. Further, the Company derives part of its revenue from its subsidiaries. It thus may need to depend on dividends or interest and principal payments from its subsidiaries to satisfy its obligations.

As a result, any claim by the Issuer against the Company will be effectively subordinated to existing and future claims of the secured creditors of the Company and, in the case of payment by the Company to the Issuer in the form of capital increases, also to the claims of the other creditors of the Company. The Issuer's claims will be further effectively subordinated to all existing and future claims of the lenders, holders of debt securities and other creditors, including trade creditors, of the Company's subsidiaries (other than the Issuer), from which the Company derives a portion, though not a majority, of its revenue. In the event of an insolvency, bankruptcy, liquidation, reorganisation, dissolution or winding-up of the business of the Company or any of the Company's subsidiaries (other than the Issuer), the creditors of the Company or the creditors of the Company's subsidiaries, as the case may be, generally will have the right to be paid in full before any distribution is made to the Company or to the Issuer.

The ratings of the Notes may be downgraded or withdrawn.

Each Series of Notes are expected to be rated by any of Fitch, Moody's and/or S&P, as specified in the applicable Pricing Supplement. The rating represents the opinion of the relevant rating agency and its assessment of the ability of the Issuer and, the Guarantor to perform their respective obligations under the Notes and the Guarantee of the Notes, and credit risks in determining the likelihood that payments will be made when due under the Notes. A rating is not a recommendation to buy, sell or hold securities. The rating can be lowered or withdrawn at any time. Neither the Issuer nor the Guarantor obligated to inform holders of the Notes if a rating is lowered or withdrawn. A reduction or withdrawal of a rating may adversely affect the market price of the Notes.

In the event that the Guarantor failed to fully perform its obligations under the Deed of Guarantee, performance by BOC of such obligations may be subject to approvals of the PRC government authorities.

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

Therefore, in the event the Guarantor is unable to or does not perform its obligations under the Deed of Guarantee, BOC will assume all obligations of the Guarantor with respect to the payments under the Notes. The remittance of funds outside the PRC by BOC in order to perform these obligations may be subject to approvals, registration or verification of the State Administration of Foreign Exchange (the "SAFE"). There can be no assurance that BOC will successfully obtain any of the requisite approvals in time, or at all.

The PRC government does not guarantee the Notes.

The Bank is majority owned by an entity controlled by the PRC government. The repayment obligation under the Notes remain the sole obligations of the Issuer and the Guarantor and ownership or control by the PRC government does not provide any assurance on the Issuer's, the Guarantor's or the Group's financial condition.

Difficulties may be experienced in effecting service of legal process and enforcing judgments against the Bank and its management.

The Bank is a company incorporated in the PRC and a substantial portion of the Bank's assets are located in the PRC. In addition, a number of the Bank's directors and senior management reside within the PRC and the assets of the Bank's directors and officers may be located within the PRC. In certain situations, investors may encounter difficulties in effecting service of process upon the Bank or those persons inside PRC.

The Guarantor's ability to perform its obligations under the Deed of Guarantee is subject to the financial condition of the Bank.

The Guarantor is not a separate and independent legal person but has capacity to carry on its activities within its scope of the authorisation given by the Bank, and if the assets of the Guarantor are not sufficient to meet the obligations of the Guarantor under the Deed of Guarantee, the Bank would have an obligation to satisfy the balance of the obligations under the Deed of Guarantee. Therefore, the ability of the Guarantor to make payments under the Deed of Guarantee will depend on the financial condition of the Bank, which could be materially and adversely affected by a number of factors, including, but not limited to, the following:

- *Impaired loans and advances*: the Bank's results of operations have been and will continue to be negatively affected by its impaired loans. If the Bank is unable to effectively control and reduce the level of impaired loans and advances in its current loan portfolio and in new loans the Bank extends in the future, or the Bank's allowance for impairment losses on loans and advances is insufficient to cover actual loan losses, the Bank's financial condition could be materially and adversely affected.

- *Collateral and guarantees*: A substantial portion of the Bank's loans is secured by collateral. In addition, a substantial portion of its PRC loans and advances is backed by guarantees. If the Bank is unable to realise the collateral or guarantees securing its loans to cover the outstanding principal and interest balance of such loans due to various factors, the Bank's financial condition could be materially and adversely affected.

- *Loans to real estate sector and government financing platforms*: the Bank's loans and advances to the real estate sector primarily comprise loans issued to real estate companies and individual housing loans. The real estate market may be affected by many factors, including, without limitation, cyclical economic volatility and economic downturns. In addition, the PRC government has in recent years imposed macroeconomic control measures that are aimed at preventing the real estate market from over-heating. Such factors may adversely affect the growth and quality of its loans to the real estate industry and, consequently, the Bank's financial condition and results of operations. Loans to government financing platforms are a part of the loan portfolio of the Bank. The government revenues are primarily derived from taxes and land premiums. Therefore, economic cycles and fluctuations in the real estate market may also adversely affect the quality of such loans.

The Notes may not be a suitable investment for all investors.

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

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

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

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

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

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

Some Notes may be complex financial instruments and such instruments may be purchased as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to the purchaser's overall portfolios. A potential investor should not invest in Notes which are complex financial instruments unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of such Notes and the impact this investment will have on the potential investor's overall investment portfolio.

Additionally, the investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) the Notes are legal investments for it, (2) the Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk based capital or similar rules.

Modifications and waivers

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

The Terms and Conditions of the Notes also provide that the Agents may, without the consent of Noteholders or Couponholders agree to (i) any modification of any of the provisions of the Agency Agreement (as defined in the Terms and Conditions of the Notes) that is of a formal, minor or technical nature or is made to correct a manifest error, and (ii) any other modification (except as mentioned in the Agency Agreement) and any waiver or authorisation of any breach or proposed breach, of any of the provisions of the Agency Agreement, that is in the opinion of the parties to the Agency Agreement, not materially prejudicial to the interests of the Noteholders.

A change in English law which governs the Notes may adversely affect Noteholders.

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

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

Notes issued under the Programme may be represented by one or more Global Notes or Global Certificates. Such Global Notes and Global Certificates will be deposited with a common depositary for Euroclear and Clearstream, Luxembourg, or lodged with the CMU Service (each of Euroclear, Clearstream, Luxembourg and the CMU Service, a "Clearing System").

Except in the circumstances described in the relevant Global Note or Global Certificate, investors will not be entitled to receive definitive Notes. The relevant Clearing System(s) will maintain records of the beneficial interests in the Global Notes and the Global Certificates. While the Notes are represented by one or more Global Notes or Global Certificates, investors will be able to trade their beneficial interests only through the Clearing Systems.

While the Notes are represented by one or more Global Notes or Global Certificates, the Issuer will discharge its payment obligations under the Notes by making payments to the relevant Clearing Systems for distribution to their account holders. A holder of a beneficial interest in a Global Note or Global Certificate must rely on the procedures of the relevant Clearing System(s) to receive payments under the relevant Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Notes and the Global Certificates.

Holders of beneficial interests in the Global Notes and the Global Certificates will not have a direct right to vote in respect of the relevant Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant Clearing System(s) to appoint appropriate proxies.

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

Notes may be issued with a minimum denomination. The Pricing Supplement of a Tranche of Notes may provide that, for so long as the Notes are represented by a Global Note or a Global Certificate and the relevant Clearing System(s) so permit, the Notes will be tradable in nominal amounts (a) equal to, or integral multiples of, the minimum denomination, and (b) the minimum denomination plus integral multiples of an amount lower than the minimum denomination.

Definitive Notes will only be issued if the relevant Clearing System(s) is/are closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business. The Pricing Supplement may provide that, if Definitive Notes are issued, such Notes will be issued in respect of all holdings of Notes equal to or greater than the minimum denomination. However, Noteholders should be aware that Definitive Notes that have a denomination that is not an integral multiple of the minimum denomination may be illiquid and difficult to trade. Definitive Notes will in no circumstances be issued to any person holding Notes in an amount lower than the minimum denomination and such Notes will be cancelled and holders will have no rights against the Issuer (including rights to receive principal or interest or to vote) in respect of such Notes.

Risks relating to a particular issue of Notes

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

Notes subject to optional redemption by the Issuer may have a lower market value than Notes that cannot be redeemed.

Unless in the case of any particular Tranche of Notes the relevant Pricing Supplement specifies otherwise, in the event that the Issuer would be obliged to increase the amounts payable in respect of any Notes due to any withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the British Virgin Islands, the PRC or Macau or any political subdivision thereof or any authority therein or thereof having power to tax, the Issuer may redeem all outstanding Notes in accordance with the Terms and Conditions of the Notes.

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

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

Dual Currency Notes have features which are different from single currency issues.

The Issuer may issue Notes with principal or interest payable in one or more currencies which may be different from the currency in which the Notes are denominated. Potential investors should be aware that:

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

(ii) they may receive no interest;

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

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

Failure by an investor to pay a subsequent instalment of partly paid Notes may result in an investor losing all of its investment.

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

The market price of variable rate Notes with a multiplier or other leverage factor may be volatile.

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

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

Notes carrying an interest rate which may be converted from fixed to floating interest rates and vice versa, may have lower market values than other Notes.

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

The market prices of Notes issued at a substantial discount or premium tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest bearing securities.

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

Investors may lose part or all of their investment in any Index Linked Notes issued.

If, in the case of a particular Tranche of Notes, the relevant Pricing Supplement specifies that the Notes are Index Linked Notes or variable redemption amount Notes, there is a risk that the investor may lose the value of its entire investment or part of it.

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

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

Regulation (EU) 2016/1011 (the "EU Benchmarks Regulation") applies, subject to certain transitional provisions, to the provision of benchmarks, the contribution of input data to a benchmark and the use of a benchmark within the EU. Among other things, it (i) requires benchmark administrators to be authorised or registered (or, if non-EU-based, to be subject to an equivalent regime or otherwise recognised or endorsed) and (ii) prevents certain uses by EU supervised entities of benchmarks of administrators that are not authorised or registered (or, if non-EU based, not deemed equivalent or recognised or endorsed). Regulation (EU) 2016/1011 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the "UK Benchmarks Regulation") among other things, applies to the provision of benchmarks and the use of a benchmark in the UK. Similarly, it prohibits the use in the UK by UK supervised entities of benchmarks of administrators that are not authorised by the FCA or registered on the FCA register (or, if non-UK based, not deemed equivalent or recognised or endorsed).

The EU Benchmarks Regulation and/or the UK Benchmarks Regulation, as applicable, could have a material impact on any Notes linked to or referencing a benchmark in particular, if the methodology or other terms of the benchmark are changed in order to comply with the requirements of the EU Benchmarks Regulation and/or the UK Benchmarks Regulation, as applicable. Such changes could, among other things, have the effect of reducing, increasing or otherwise affecting the volatility of the published rate or level of the relevant benchmark.

More broadly, any of the international, national, or other proposals, for reforms or the general increased regulatory scrutiny of benchmarks, could increase the costs and risks of administering or otherwise participating in the setting of a benchmark and complying with any such regulations or requirements. Specifically, the sustainability of the London Interbank Offered Rate ("LIBOR") has been questioned as a result of the absence of relevant active underlying markets and possible disincentives (including possibly as a result of benchmark reforms) for market participants to continue contributing to such benchmarks. The Financial Conduct Authority Announcement has indicated through a series of announcements that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021. On 5 March 2021, the FCA announced that (i) the publication of 24 LIBOR settings (as detailed in the FCA announcement) will cease immediately after 31 December 2021, (ii) the publication of the overnight and 12-month U.S. dollar LIBOR settings will cease immediately after 30 June 2023, (iii) immediately after 31 December 2021, the 1-month, 3-month and 6-month sterling LIBOR settings will no longer be representative of the underlying market and economic reality that they are intended to measure and representativeness will not be restored (and the FCA will consult on requiring the ICE Benchmark Administration Limited (the "IBA") to continue to publish these settings on a synthetic basis, which will no longer be representative of the underlying market and economic reality they are intended to measure, for a further period after end 2021) and (iv) immediately after 30 June 2023, the 1-month, 3-month and 6-month U.S. dollar LIBOR settings will no longer be representative of the underlying market and economic reality that they are intended to measure and representativeness will not be restored (and the FCA will consider the case for using its proposed powers to require IBA to continue publishing these settings on a synthetic basis, which will no longer be representative of the underlying market and economic reality they are intended to measure, for a further period after end June 2023).

It is not possible to predict with certainty whether, and to what extent, LIBOR will continue to be supported going forwards. This may cause LIBOR to perform differently than it has done in the past, and may have other consequences which cannot be predicted. Such factors may have (without limitation) the following effects on certain benchmarks: (i) discouraging market participants from continuing to administer or contribute to a benchmark; (ii) triggering changes in the rules or methodologies used in the benchmark and/or (iii) leading to the disappearance of the benchmark. Any of the above changes or any other consequential changes as a result of international or national reforms or other initiatives or investigations, could have a material adverse effect on the value of and return on any Notes linked to or referencing a benchmark, or otherwise dependent on (in whole or in part) upon, a benchmark.

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

The value of, and return on, Floating Rate Notes linked to or referencing LIBOR may be adversely affected in the event of a permanent discontinuation of LIBOR

Where Screen Rate Determination is specified as the manner in which the Rate of Interest in respect of Floating Rate Notes is to be determined, and LIBOR has been selected as the Reference Rate, the Terms and Conditions of the Notes provide that the Rate of Interest shall be determined by reference to the Relevant Screen Page (or its successor or replacement). In circumstances where LIBOR is discontinued, neither the Relevant Screen Page, nor any successor or replacement may be available.

Where the Relevant Screen Page is not available, and no successor or replacement for the Relevant Screen Page is available, the Terms and Conditions of the Notes provide for the Rate of Interest to be determined by the Calculation Agent by reference to quotations from banks communicated to the Calculation Agent.

Where such quotations are not available (as may be the case if the relevant banks are not submitting rates for the determination of LIBOR), the Rate of Interest may revert to the Rate of Interest applicable as at the last preceding Interest Determination Date before LIBOR was discontinued, and if LIBOR is discontinued permanently, the same Rate of Interest will continue to be the Rate of Interest for each successive Interest Period until the maturity of the Floating Rate Notes, so that the Floating Rate Notes will, in effect, carry a fixed interest rate ("Fixed Rate Notes") utilising the last available LIBOR rate. Uncertainty as to the continuation of LIBOR, the availability of quotes from reference banks, and the rate that would be applicable if LIBOR is discontinued may adversely affect the value of, and return on, the Floating Rate Notes.

Where ISDA Determination is specified as the manner in which the Rate of Interest in respect of Floating Rate Notes is to be determined, the Terms and Conditions of the Notes provide that the Rate of Interest in respect of the Notes shall be determined by reference to the relevant Floating Rate Option in the 2006 ISDA Definitions. Where the Floating Rate Option specified is a "LIBOR" Floating Rate Option, the Rate of Interest may be determined by reference to the relevant screen rate or the rate determined on the basis of quotations from certain banks. If LIBOR is permanently discontinued and the relevant screen rate or, failing that, quotations from banks are not available, the operation of these provisions may lead to uncertainty as to the Rate of Interest that would be applicable, and may, adversely affect the value of, and return on, the Floating Rate Notes.

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

On 7 July 2017, the Financial Institutions (Resolution) Ordinance (Cap. 628) of Hong Kong (the "FIRO") came into operation. The FIRO provides for, among other things, the establishment of a resolution regime for authorised institutions and other within scope financial institutions in Hong Kong which may be designated by the relevant resolution authorities, which may include the Bank and other members of the Group (a "FIRO Group Entity"). The resolution regime seeks to provide the relevant resolution authorities with administrative powers to bring about timely and orderly resolution in order to stabilise and secure continuity for a failing authorised institution or within scope financial institution in Hong Kong. In particular, in the context of a resolution of any FIRO Group Entity, the relevant resolution authority will have the ability to resolve other entities within the Group as if they were themselves a within scope financial institution for the purposes of FIRO and take certain actions and make certain directions in relation to such entities. Any such actions could potentially affect contractual and property rights relating to the Bank. In addition, the relevant resolution authority is provided with powers to affect contractual and property rights as well as payments (including in respect of nay priority of payment) that creditors would receive in resolution. These may include, but are not limited to, powers to cancel, write off, modify, convert or replace all or a part of the Notes or the principal amount of, or interest on, the Notes, and powers to amend or alter the contractual provisions of the Notes, all of which may adversely affect the value of the Notes, and the holders thereof may suffer a loss of some or all of their investment as a result. Holders of Notes (whether senior or subordinated) may become subject to and bound by the FIRO. The implementation of FIRO remains untested and certain detail relating to FIRO will be set out through secondary legislation and supporting rules. Therefore, the Bank is unable to assess the full impact of FIRO on the financial system generally, the Bank's counterparties, the Bank, any of its consolidated subsidiaries or other Group entities, the Bank's operations and/or its financial position.

Risks relating to the market generally

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

Notes issued under the Programme have no current active trading market and may trade at a discount to their initial offering price and/or with limited liquidity

Notes issued under the Programme will be new securities which may not be widely distributed and for which there is currently no active trading market (unless in the case of any particular Tranche, such Tranche is to be consolidated with and form a single series with a Tranche of Notes which is already issued). If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Issuer. If the Notes are trading at a discount, investors may not be able to receive a favourable price for their Notes, and in some circumstances investors may not be able to sell their Notes at all or at their fair market value. Although application has been made to the Hong Kong Stock Exchange for the Notes issued under the Programme to be admitted to listing on the Hong Kong Stock Exchange, there is no assurance that such application will be accepted, that any particular Tranche of Notes will be so admitted or that an active trading market will develop. In addition, the market for investment grade has been subject to disruptions that have caused volatility in prices of securities similar to the Notes issued under the Programme. Accordingly, there is no assurance as to the development or liquidity of any trading market, or that disruptions will not occur, for any particular Tranche of Notes.

Exchange rate risks and exchange controls may result in investors receiving less interest or principal than expected

The Issuer will pay principal and interest on the Notes in the currency specified in the relevant Pricing Supplement (the "Specified Currency"). This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "Investor's Currency") other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (1) the Investor's Currency equivalent yield on the Notes, (2) the Investor's Currency equivalent value of the principal payable on the Notes and (3) the Investor's Currency equivalent market value of the Notes.

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

Changes in market interest rates may adversely affect the value of Fixed Rate Notes

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

Risks relating to Renminbi denominated Notes

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

Renminbi is not completely freely convertible; there are significant restrictions on the remittance of Renminbi into and outside of the PRC which may adversely affect the liquidity of Renminbi Notes

Renminbi is not completely freely convertible at present. The PRC Government continues to regulate conversion between Renminbi and foreign currencies, including the Hong Kong dollar, despite the significant reduction over the years by the PRC government of control over routine foreign exchange transactions under current accounts. These transactions are known as current account items.

On the other hand, remittance of Renminbi by foreign investors into the PRC for the purposes of capital account items, such as capital contributions, is generally only permitted upon obtaining specific approvals from, or completing specific registrations or filings with, the relevant authorities on a case-by-case basis and is subject to a strict monitoring system. Regulations in the PRC on the remittance of Renminbi into the PRC for settlement of capital account items are developing gradually. In accordance with Circular of the State Administration of Foreign Exchange on Further Simplifying and Improving the Direct Investment-related Foreign Exchange Administration Policies (關於進一步簡化和改進直接投資外匯管理政策的通知), or the Circular 13, certain foreign exchange registration has been directly reviewed and handled by banks since 1 June 2015, and SAFE and its branches perform indirect regulation over such foreign exchange registration through local banks.

Although starting from 1 October 2016, the Renminbi was added to the Special Drawing Rights basket created by the International Monetary Fund, and the Circular 13 has simplified the direct investment-related foreign exchange administration, there is no assurance that the PRC Government will continue to liberalise control over cross-border remittance of Renminbi in the future, that the pilot schemes for Renminbi cross-border utilisation will not be discontinued or that new regulations in the PRC will not be promulgated in the future which have the effect of restricting or eliminating the remittance of Renminbi into or out of the PRC. In the event that funds cannot be repatriated out of the PRC in Renminbi, this may affect the overall availability of Renminbi outside the PRC and the ability of each of the Issuer and the Guarantor to source Renminbi to finance its obligations under Notes denominated in Renminbi.

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

As a result of the restrictions by the PRC Government on cross-border Renminbi fund flows, the availability of Renminbi outside the PRC is limited.

While the PBOC has established Renminbi clearing and settlement mechanisms for participating banks in Hong Kong, Singapore and Taiwan through settlement agreements on the clearing of Renminbi business (the "Settlement Agreements") with Bank of China (Hong Kong) Limited in Hong Kong, Industrial and Commercial Bank of China, Singapore Branch in Singapore and Bank of China, Taipei Branch in Taiwan (each, a "Renminbi Clearing Bank"), the current size of Renminbi-denominated financial assets outside the PRC is limited.

There are restrictions imposed by the PBOC on Renminbi business participating banks in respect of cross-border Renminbi settlement, such as those relating to direct transactions with PRC enterprises.

Furthermore, Renminbi business participating banks do not have direct Renminbi liquidity support from the PBOC. The Renminbi Clearing Banks only have access to onshore liquidity support from the PBOC for the purpose of squaring open positions of participating banks for limited types of transactions and are not obliged to square for participating banks any open positions resulting from other foreign exchange transactions or conversion services. In such cases, the participating banks will need to source Renminbi from outside the PRC to square such open positions.

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

An investment in the Renminbi Notes is subject to exchange rate risks

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

Investment in Renminbi Notes is subject to interest rate risks

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

As Renminbi Notes may be Fixed Rate Notes or have a resettable interest rate ("Resettable Notes"). Consequently, the trading price of the Renminbi Notes which are Fixed Rate Notes or Resettable Notes will vary with the fluctuations in the Renminbi interest rates. If holders of such Renminbi Notes propose to sell their Renminbi Notes before their maturity, they may receive an offer lower than the amount they have invested.

Payments in respect of Renminbi Notes will only be made to investors in the manner specified in such Renminbi Notes

All payments to investors in respect of Renminbi Notes cleared through the CMU Service will be made solely by (i) when Renminbi Notes are represented by Global Notes or Global Certificates cleared through the CMU Service, transfer to a Renminbi bank account maintained in Hong Kong in accordance with the prevailing rules and procedures of the CMU Service, or (ii) when Renminbi Notes are in definitive form, transfer to a Renminbi bank account maintained in Hong Kong in accordance with prevailing rules and regulations. The Issuer cannot be required to make payment by any other means (including in any other currency or in bank notes, by cheque or draft or by transfer to a bank account in China).

USE OF PROCEEDS

The net proceeds from each issue of Notes will be on lent by the Issuer to the Company and/or its subsidiaries for general corporate purposes. If, in respect of any particular issue, there is a particular identified use of proceeds, this will be stated in the applicable Pricing Supplement.

FORM OF THE NOTES

Bearer Notes

Each Tranche of Notes in bearer form ("Bearer Notes") will initially be in the form of either a temporary global note in bearer form (the "Temporary Global Note"), without interest coupons, or a permanent global note in bearer form (the "Permanent Global Note"), without interest coupons, in each case as specified in the relevant Pricing Supplement. Each Temporary Global Note or, as the case may be, Permanent Global Note (each a "Global Note") will be deposited on or around the issue date of the relevant Tranche of the Notes with a depositary or a common depositary for Euroclear Bank SA/NV as operator of the Euroclear System ("Euroclear") and/or Clearstream Banking S.A. ("Clearstream, Luxembourg") and/or any other relevant clearing system, and/or a sub-custodian for the CMU Service.

In the case of each Tranche of Bearer Notes, the relevant Pricing Supplement will also specify whether United States Treasury Regulation §1.163-5(c)(2)(i)(C) (the "TEFRA C Rules") or United States Treasury Regulation §1.163 5(c)(2)(i)(D) (the "TEFRA D Rules") are applicable in relation to the Notes or, if the Notes do not have a maturity of more than 365 days, that neither the TEFRA C Rules nor the TEFRA D Rules are applicable.

Temporary Global Note exchangeable for Permanent Global Note

If the relevant Pricing Supplement specifies the form of Notes as being "Temporary Global Note exchangeable for a Permanent Global Note", then the Notes will initially be in the form of a Temporary Global Note which will be exchangeable, in whole or in part, for interests in a Permanent Global Note, without interest coupons, not earlier than 40 days after the issue date of the relevant Tranche of the Notes upon certification as to non-U.S. beneficial ownership. No payments will be made under the Temporary Global Note unless exchange for interests in the Permanent Global Note is improperly withheld or refused. In addition, interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership.

Whenever any interest in the Temporary Global Note is to be exchanged for an interest in a Permanent Global Note, the Issuer shall procure (in the case of first exchange) the delivery of a Permanent Global Note to the bearer of the Temporary Global Note or (in the case of any subsequent exchange) an increase in the principal amount of the Permanent Global Note in accordance with its terms against:

(i) presentation and (in the case of final exchange) presentation and surrender of the Temporary Global Note to or to the order of the Issuing and Paying Agent; and

(ii) receipt by the Issuing and Paying Agent of a certificate or certificates of non-U.S. beneficial ownership.

The principal amount of Notes represented by the Permanent Global Note shall be equal to the aggregate of the principal amounts specified in the certificates of non-U.S. beneficial ownership provided, however, that in no circumstances shall the principal amount of Notes represented by the Permanent Global Note exceed the initial principal amount of Notes represented by the Temporary Global Note.

If:

(a) the Permanent Global Note has not been delivered or the principal amount thereof increased by 5.00 p.m. (Hong Kong time) on the seventh day after the bearer of the Temporary Global Note has requested exchange of an interest in the Temporary Global Note for an interest in a Permanent Global Note; or

(b) the Temporary Global Note (or any part thereof) has become due and payable in accordance with the Terms and Conditions of the Notes or the date for final redemption of the Temporary Global Note has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer of the Temporary Global Note in accordance with the terms of the Temporary Global Note on the due date for payment,

then the Temporary Global Note (including the obligation to deliver a Permanent Global Note) will become void at 5.00 p.m. (Hong Kong time) on such seventh day (in the case of (a) above) or at 5.00 p.m. (Hong Kong time) on such due date (in the case of (b) above) and the bearer of the Temporary Global Note will have no further rights thereunder (but without prejudice to the rights which the bearer of the Temporary Global Note or others may have under the Deed of Covenant).

The Permanent Global Note will become exchangeable, in whole but not in part only and at the request of the bearer of the Permanent Global Note, for Bearer Notes in definitive form ("Definitive Notes"):

(a) on the expiry of such period of notice as may be specified in the Pricing Supplement; or

(b) at any time, if so specified in the Pricing Supplement; or

(c) if the Pricing Supplement specifies "in the limited circumstances described in the Permanent Global Note", then if either of the following events occurs:

Euroclear or Clearstream, Luxembourg or the CMU Service or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business; or

(i) any of the circumstances described in Condition 14 (*Events of Default*) occurs.

Whenever the Permanent Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the Pricing Supplement), in an aggregate principal amount equal to the principal amount of Notes represented by the Permanent Global Note to the bearer of the Permanent Global Note against the surrender of the Permanent Global Note to or to the order of the Issuing and Paying Agent within 30 days of the bearer requesting such exchange.

If:

(a) Definitive Notes have not been duly delivered by 5.00 p.m. (Hong Kong time) on the thirtieth day after the bearer has requested exchange of the Permanent Global Note for Definitive Notes; or

(b) the Permanent Global Note was originally issued in exchange for part only of a Temporary Global Note representing the Notes and such Temporary Global Note becomes void in accordance with its terms; or

(c) the Permanent Global Note (or any part thereof) has become due and payable in accordance with the Terms and Conditions of the Notes or the date for final redemption of the Permanent Global Note has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer in accordance with the terms of the Permanent Global Note on the due date for payment,

then the Permanent Global Note (including the obligation to deliver Definitive Notes) will become void at 5.00 p.m. (Hong Kong time) on such thirtieth day (in the case of (a) above) or at 5.00 p.m. (Hong Kong time) on the date on which such Temporary Global Note becomes void (in the case of (b) above) or at 5.00 p.m. (Hong Kong time) on such due date ((c) above) and the bearer of the Permanent Global Note will have no further rights thereunder (but without prejudice to the rights which the bearer of the Permanent Global Note or others may have under the Deed of Covenant).

Temporary Global Note exchangeable for Definitive Notes

If the relevant Pricing Supplement specifies the form of Notes as being "Temporary Global Note exchangeable for Definitive Notes" and also specifies that the TEFRA C Rules are applicable or that neither the TEFRA C Rules or the TEFRA D Rules are applicable, then the Notes will initially be in the form of a Temporary Global Note which will be exchangeable, in whole but not in part, for Definitive Notes not earlier than 40 days after the issue date of the relevant Tranche of the Notes.

If the relevant Pricing Supplement specifies the form of Notes as being "Temporary Global Note exchangeable for Definitive Notes" and also specifies that the TEFRA D Rules are applicable, then the Notes will initially be in the form of a Temporary Global Note which will be exchangeable, in whole or in part, for Definitive Notes not earlier than 40 days after the issue date of the relevant Tranche of the Notes upon certification as to non-U.S. beneficial ownership. Interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership.

Whenever the Temporary Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the relevant Pricing Supplement), in an aggregate principal amount equal to the principal amount of the Temporary Global Note to the bearer of the Temporary Global Note against the surrender of the Temporary Global Note to or to the order of the Issuing and Paying Agent within 30 days of the bearer requesting such exchange.

If:

(a) Definitive Notes have not been duly delivered by 5.00 p.m. (Hong Kong time) on the thirtieth day after the bearer has requested exchange of the Temporary Global Note for Definitive Notes; or

(b) the Temporary Global Note (or any part thereof) has become due and payable in accordance with the Terms and Conditions of the Notes or the date for final redemption of the Temporary Global Note has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer in accordance with the terms of the Temporary Global Note on the due date for payment,

then the Temporary Global Note (including the obligation to deliver Definitive Notes) will become void at 5.00 p.m. (Hong Kong time) on such thirtieth day (in the case of (a) above) or at 5.00 p.m. (Hong Kong time) on such due date (in the case of (b) above) and the bearer of the Temporary Global Note will have no further rights thereunder (but without prejudice to the rights which the bearer of the Temporary Global Note or others may have under the Deed of Covenant).

Permanent Global Note exchangeable for Definitive Notes

If the relevant Pricing Supplement specifies the form of Notes as being "Permanent Global Note exchangeable for Definitive Notes", then the Notes will initially be in the form of a Permanent Global Note which will be exchangeable in whole, but not in part, for Definitive Notes:

(a) on the expiry of such period of notice as may be specified in the relevant Pricing Supplement; or

(b) at any time, if so specified in the relevant Pricing Supplement; or

(c) if the relevant Pricing Supplement specifies "in the limited circumstances described in the Permanent Global Note", then if either of the following events occurs:

(i) Euroclear or Clearstream, Luxembourg or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business; or

(ii) any of the circumstances described in Condition 14 (*Events of Default*) occurs.

Whenever the Permanent Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the Pricing Supplement), in an aggregate principal amount equal to the principal amount of Notes represented by the Permanent Global Note to the bearer of the Permanent Global Note against the surrender of the Permanent Global Note to or to the order of the Issuing and Paying Agent within 30 days of the bearer requesting such exchange.

If:

(a) Definitive Notes have not been duly delivered by 5.00 p.m. (Hong Kong time) on the thirtieth day after the bearer has requested exchange of the Permanent Global Note for Definitive Notes; or

(b) the Permanent Global Note (or any part thereof) has become due and payable in accordance with the Terms and Conditions of the Notes or the date for final redemption of the Permanent Global Note has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer in accordance with the terms of the Permanent Global Note on the due date for payment,

then the Permanent Global Note (including the obligation to deliver Definitive Notes) will become void at 5.00 p.m. (Hong Kong time) on such thirtieth day (in the case of (a) above) or at 5.00 p.m. (Hong Kong time) on such due date ((b) above) and the bearer of the Permanent Global Note will have no further rights thereunder (but without prejudice to the rights which the bearer of the Permanent Global Note or others may have under the Deed of Covenant).

Rights under Deed of Covenant

Under the Deed of Covenant, persons shown in the records of Euroclear and/or Clearstream, Luxembourg and/or the CMU Service and/or any other relevant clearing system as being entitled to an interest in a Temporary Global Note or a Permanent Global Note which becomes void will acquire directly against the Issuer all those rights to which they would have been entitled if, immediately before the Temporary Global Note or Permanent Global Note became void, they had been the holders of Definitive Notes in an aggregate principal amount equal to the principal amount of Notes they were shown as holding in the records of Euroclear and/or Clearstream, Luxembourg and/or the CMU Service and/or any other relevant clearing system.

Terms and Conditions applicable to the Notes

The terms and conditions applicable to any Definitive Note will be endorsed on that Note and will consist of the terms and conditions set out under "*Terms and Conditions of the Notes*" below and the provisions of the relevant Pricing Supplement which supplement, amend and/or replace those terms and conditions.

The terms and conditions applicable to any Note in global form will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described under "*Summary of Provisions Relating to the Notes while in Global Form*" below.

Legend concerning United States persons

In the case of any Tranche of Bearer Notes having a maturity of more than one year, the Notes in global form, the Notes in definitive form and any Coupons and Talons appertaining thereto will bear a legend to the following effect:

> "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code."

Registered Notes

Each Tranche of Registered Notes will be in the form of either individual Note Certificates in registered form ("Individual Note Certificates") or a global Note in registered form (a "Global Note Certificate"), in each case as specified in the relevant Pricing Supplement.

Each Global Note Certificate will be deposited on or around the relevant issue date with a depositary or a common depositary for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and registered in the name of a nominee for such depositary and will be exchangeable for Individual Note Certificates in accordance with its terms.

If the relevant Pricing Supplement specifies the form of Notes as being "Individual Note Certificates", then the Notes will at all times be in the form of Individual Note Certificates issued to each Noteholder in respect of their respective holdings.

If the relevant Pricing Supplement specifies the form of Notes as being "Global Note Certificate exchangeable for Individual Note Certificates", then the Notes will initially be in the form of a Global Note Certificate which will be exchangeable in whole, but not in part, for Individual Note Certificates:

(a) on the expiry of such period of notice as may be specified in the relevant Pricing Supplement; or

(b) at any time, if so specified in the relevant Pricing Supplement; or

(c) if the relevant Pricing Supplement specifies "in the limited circumstances described in the Global Note Certificate", then if either of the following events occurs:

  (i) Euroclear or Clearstream, Luxembourg or the CMU Service or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or

  (ii) any of the circumstances described in Condition 14 (*Events of Default*) occurs.

Whenever the Global Note Certificate is to be exchanged for Individual Note Certificates, the Issuer shall procure that Individual Note Certificates will be issued in an aggregate principal amount equal to the principal amount of the Global Note Certificate within five business days of the delivery, by or on behalf of the registered holder of the Global Note Certificate to the Registrar of such information as is required to complete and deliver such Individual Note Certificates (including, without limitation, the names and addresses of the persons in whose names the Individual Note Certificates are to be registered and the principal amount of each such person's holding) against the surrender of the Global Note Certificate at the specified office of the Registrar.

Such exchange will be effected in accordance with the provisions of the Agency Agreement and the regulations concerning the transfer and registration of Notes scheduled thereto and, in particular, shall be effected without charge to any holder, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.

If:

(a) Individual Note Certificates have not been delivered by 5.00 p.m. (Hong Kong time) on the thirtieth day after they are due to be issued and delivered in accordance with the terms of the Global Note Certificate; or

(b) any of the Notes represented by a Global Note Certificate (or any part of it) has become due and payable in accordance with the Terms and Conditions of the Notes or the date for final redemption of the Notes has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the holder of the Global Note Certificate in accordance with the terms of the Global Note Certificate on the due date for payment,

then the Global Note Certificate (including the obligation to deliver Individual Note Certificates) will become void at 5.00 p.m. (Hong Kong time) on such thirtieth day (in the case of (a) above) or at 5.00 p.m. (Hong Kong time) on such due date (in the case of (b) above) and the holder of the Global Note Certificate will have no further rights thereunder (but without prejudice to the rights which the holder of the Global Note Certificate or others may have under the Deed of Covenant. Under the Deed of Covenant, persons shown in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system as being entitled to an interest in a Global Note Certificate will acquire directly against the Issuer all those rights to which they would have been entitled if, immediately before the Global Note Certificate became void, they had been the holders of Individual Note Certificates in an aggregate principal amount equal to the principal amount of Notes they were shown as holding in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system.

Terms and Conditions applicable to the Notes

The terms and conditions applicable to any Individual Note Certificate will be endorsed on that Individual Note Certificate and will consist of the terms and conditions set out under "*Terms and Conditions of the Notes*" below and the provisions of the relevant Pricing Supplement which supplement, amend and/or replace those terms and conditions.

The terms and conditions applicable to any Global Note Certificate will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described under "*Summary of Provisions Relating to the Notes while in Global Form*" below.

CMU Service

The CMU Service is a central depositary service provided by the Central Moneymarkets Unit of the HKMA for the safe custody and electronic trading between the members of this service ("CMU Members") of Exchange Fund Bills and Notes Clearing and Settlement Service securities and capital markets instruments (together as "CMU Instruments") which are specified in the CMU Reference Manual as capable of being held within the CMU Service.

The CMU Service is only available to CMU Notes issued by a CMU Member or by a person for whom a CMU Member acts as agent for the purposes of lodging instruments issued by such persons.

Membership of the CMU Service is open to financial institutions regulated by Hong Kong Monetary Authority, Securities and Futures Commission, Insurance Authority or Mandatory Provident Fund Schemes Authority. For further details on the full range of the CMU Service's custodial services, please refer to the CMU Reference Manual.

The CMU Service has an income distribution service which is a service offered by the CMU Service to facilitate the distribution of interest, coupon or redemption proceeds (collectively, the "income proceeds") by CMU Members who are paying agents to the legal title holders of CMU Instruments via the CMU system.

Furthermore, the CMU Service has a corporate action platform which allows an issuer (or its agent) to make an announcement/notification of a corporate action and noteholders to submit the relevant certification. For further details, please refer to the CMU Reference Manual.

An investor holding an interest through an account with either Euroclear or Clearstream, Luxembourg in any Notes held in the CMU Service will hold that interest through the respective accounts which Euroclear and Clearstream, Luxembourg each have with the CMU Service.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions which, as supplemented, amended and/or replaced by the relevant Pricing Supplement, will be endorsed on each Note in definitive form issued under the Programme. The terms and conditions applicable to any Note in global form will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described under "Summary of Provisions Relating to the Notes while in Global Form" below.

1. Introduction

(a) Programme: Amipeace Limited (the "**Issuer**") has established a Medium Term Note Programme (the "**Programme**") for the issuance of up to HK$20,000,000,000 in aggregate principal amount of notes (the "**Notes**").

(b) *Pricing Supplement*: Notes issued under the Programme are issued in series (each a "**Series**") and each Series may comprise one or more tranches (each a "**Tranche**") of Notes. Each Tranche is the subject of a Pricing Supplement (the "**Pricing Supplement**") which supplements these terms and conditions (the "**Conditions**"). The terms and conditions applicable to any particular Tranche of Notes are these Conditions as supplemented, amended and/or replaced by the relevant Pricing Supplement. In the event of any inconsistency between these Conditions and the relevant Pricing Supplement, the relevant Pricing Supplement shall prevail.

(c) *Guarantee of the Notes*: The Notes will have the benefit of an unconditional and irrevocable guarantee (the "**Guarantee of the Notes**") from Bank of China Limited, Macau Branch (the "**Guarantor**") under a Deed of Guarantee dated 25 November 2019, as amended and/or supplemented from time to time (the "**Deed of Guarantee**"). The Guarantor has unconditionally and irrevocably guaranteed the due and punctual payment of all sums expressed to be payable by the Issuer in respect of the Notes, Receipts or Coupons, as and when the same becomes due and payable, whether at maturity, upon early redemption, upon acceleration or otherwise. Copies of the Deed of Guarantee are available for inspection upon prior written request and proof of satisfactory holding by Noteholders during normal business hours at the Specified Offices of each of the Agents, the initial Specified Offices of which are set out below.

(d) *Agency Agreement*: The Notes are the subject of a fiscal, issuing and paying agency agreement dated 19 October 2021, as amended and/or supplemented from time to time (the "**Agency Agreement**") between the Issuer, the Company, China Construction Bank (Asia) Corporation Limited as fiscal agent (the "**Fiscal Agent**", which expression includes any successor fiscal agent appointed from time to time in connection with the Notes), China Construction Bank (Asia) Corporation Limited as issuing and paying agent (the "**Issuing and Paying Agent**", which expression includes any successor issuing and paying agent appointed from time to time in connection with the Notes), China Construction Bank (Asia) Corporation Limited as registrar (the "**Registrar**", which expression includes any successor registrar appointed from time to time in connection with the Notes), China Construction Bank (Asia) Corporation Limited as CMU lodging and paying agent (the "**CMU Lodging and Paying Agent**", which expression includes any successor CMU lodging and paying agent appointed from time to time in connection with the Notes), the paying agents named therein (together with the Fiscal Agent and the CMU Lodging and Paying Agent, the "**Paying Agents**", which expression includes any successor or additional paying agents appointed from time to time in connection with the Notes) and the transfer agents named therein (together with the Registrar, the "**Transfer Agents**", which expression includes any successor or additional transfer agents appointed from time to time in connection with the Notes). In these Conditions references to the "**Agents**" are to the Paying Agents and the Transfer Agents and any reference to an "**Agent**" is to any one of them. For the purposes of these Conditions, all references (other than in relation to the determination of interest and other amounts payable in respect of the Notes) to the Fiscal Agent shall, with respect to a Series of Notes to be held in the CMU Service (as defined below), be deemed to be a reference to the CMU Lodging and Paying Agent and all such reference shall be construed accordingly.

(e) *Deed of Covenant*: The Notes may be issued in bearer form ("**Bearer Notes**"), or in registered form ("**Registered Notes**"). Registered Notes are constituted by a deed of covenant dated 25 November 2019, as amended and/or supplemented from time to time (the "**Deed of Covenant**") entered into by the Issuer. Copies of the Deed of Covenant are available for inspection upon prior written request and proof of satisfactory holding by Noteholders during normal business hours at the Specified Offices of each of the Agents, the initial Specified Offices of which are set out below.

(f) *The Notes*: All subsequent references in these Conditions to "Notes" are to the Notes which are the subject of the relevant Pricing Supplement. Copies of the relevant Pricing Supplement are available for viewing and copies may be obtained from the Specified Office of each of the Paying Agents and Transfer Agents.

(g) *Summaries*: Certain provisions of these Conditions are summaries of the Agency Agreement, the Deed of Guarantee and the Deed of Covenant and are subject to their detailed provisions. Noteholders and the holders of the related interest coupons, if any, (the "**Couponholders**" and the "**Coupons**", respectively) are bound by, and are deemed to have notice of, all the provisions of the Agency Agreement, the Deed of Guarantee and the Deed of Covenant applicable to them. Copies of the Agency Agreement are (i) available for inspection upon prior written request and proof of satisfactory holding by Noteholders during normal business hours at the Specified Offices of each of the Agents, the initial Specified Offices of which are set out below or (ii) available electronically via e-mail from the Fiscal Agent.

2. **Interpretation**

(a) *Definitions*: In these Conditions the following expressions have the following meanings:

"**Accrual Yield**" has the meaning given in the relevant Pricing Supplement;

"**Additional Business Centre(s)**" means the city or cities specified as such in the relevant Pricing Supplement;

"**Additional Financial Centre(s)**" means the city or cities specified as such in the relevant Pricing Supplement;

"**Business Day**", other than where expressly defined elsewhere in these terms and conditions, means:

(a) in relation to any sum payable in euro, a TARGET Settlement Day and a day on which commercial banks and foreign exchange markets settle payments generally in each (if any) Additional Business Centre;

(b) in relation to any sum payable in a currency other than euro and Renminbi, a day on which commercial banks and foreign exchange markets settle payments generally in the Principal Financial Centre of the relevant currency and in each (if any) Additional Business Centre; and

(c) for the purposes of Notes denominated in Renminbi only, any day (other than a Sunday or a Saturday) on which commercial banks and foreign exchange markets are open for business and settle Renminbi payments in Hong Kong and are not authorised or obligated by law or executive order to be closed;

"**Business Day Convention**", in relation to any particular date, has the meaning given in the relevant Pricing Supplement and, if so specified in the relevant Pricing Supplement, may have different meanings in relation to different dates and, in this context, the following expressions shall have the following meanings:

(a) "**Following Business Day Convention**" means that the relevant date shall be postponed to the first following day that is a Business Day;

(b) "**Modified Following Business Day Convention**" or "**Modified Business Day Convention**" means that the relevant date shall be postponed to the first following day that is a Business Day unless that day falls in the next calendar month in which case that date will be the first preceding day that is a Business Day;

(c) "**Preceding Business Day Convention**" means that the relevant date shall be brought forward to the first preceding day that is a Business Day;

(d) "**FRN Convention**", "**Floating Rate Convention**" or "**Eurodollar Convention**" means that each relevant date shall be the date which numerically corresponds to the preceding such date in the calendar month which is the number of months specified in the relevant Pricing Supplement as the Specified Period after the calendar month in which the preceding such date occurred **provided, however, that**:

   (i) if there is no such numerically corresponding day in the calendar month in which any such date should occur, then such date will be the last day which is a Business Day in that calendar month;

   (ii) if any such date would otherwise fall on a day which is not a Business Day, then such date will be the first following day which is a Business Day unless that day falls in the next calendar month, in which case it will be the first preceding day which is a Business Day; and

   (iii) if the preceding such date occurred on the last day in a calendar month which was a Business Day, then all subsequent such dates will be the last day which is a Business Day in the calendar month which is the specified number of months after the calendar month in which the preceding such date occurred; and

(e) "**No Adjustment**" means that the relevant date shall not be adjusted in accordance with any Business Day Convention;

"**Calculation Agent**" means such Person specified in the relevant Pricing Supplement as the party responsible for calculating the Rate(s) of Interest and Interest Amount(s) and/or such other amount(s) as may be specified in the relevant Pricing Supplement;

"**Calculation Amount**" has the meaning given in the relevant Pricing Supplement;

"**CMU Service**" means the Central Moneymarkets Unit Service, operated by the Hong Kong Monetary Authority;

"**Company**" means Bank of China Group Investment Limited;

"**Coupon Sheet**" means, in respect of a Note, a coupon sheet relating to the Note;

"**Day Count Fraction**" means, in respect of the calculation of an amount for any period of time (the "**Calculation Period**"), such day count fraction as may be specified in these Conditions or the relevant Pricing Supplement and:

(a) if "**Actual/Actual (ICMA)**" is so specified, means:

(i) where the Calculation Period is equal to or shorter than the Regular Period during which it falls, the actual number of days in the Calculation Period divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year; and

(ii) where the Calculation Period is longer than one Regular Period, the sum of:

(A) the actual number of days in such Calculation Period falling in the Regular Period in which it begins divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year; and

(B) the actual number of days in such Calculation Period falling in the next Regular Period divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year;

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

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

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

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

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

where:

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

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

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

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

"D_1" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D1 will be 30; and

"D_2" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D1 is greater than 29, in which case D2 will be 30;

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

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

where:

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

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

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

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

"D_1" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D1 will be 30; and

"D_2" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D2 will be 30; and

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

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

where:

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

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

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

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

"D_1" is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D1 will be 30; and

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

provided, however, that in each such case the number of days in the Calculation Period is calculated from and including the first day of the Calculation Period to but excluding the last day of the Calculation Period;

"**Early Redemption Amount (Change of Control)**" means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Pricing Supplement;

"**Early Redemption Amount (Tax)**" means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Pricing Supplement;

"**Early Termination Amount**" means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, these Conditions or the relevant Pricing Supplement;

"**Extraordinary Resolution**" has the meaning given in the Agency Agreement;

"**Final Redemption Amount**" means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Pricing Supplement;

"**First Interest Payment Date**" means the date specified in the relevant Pricing Supplement;

"**Fixed Coupon Amount**" has the meaning given in the relevant Pricing Supplement;

"**Guarantee**" means, in relation to any Indebtedness of any Person, any obligation of another Person to pay such Indebtedness including (without limitation):

(a) any obligation to purchase such Indebtedness;

(b) any obligation to lend money, to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such Indebtedness;

(c) any indemnity against the consequences of a default in the payment of such Indebtedness; and

(d) any other agreement to be responsible for such Indebtedness;

"**Guarantor Material Subsidiary**" means a Subsidiary of the Guarantor whose total assets or total revenue (consolidated in the case of a Subsidiary which has Subsidiaries) as at the date at which its latest audited financial statements were prepared or, as the case may be, for the financial period to which these audited financial statements relate, account for 5 per cent. or more of the consolidated assets or consolidated revenue of the Guarantor as at such date or for such period. If a Guarantor Material Subsidiary transfers all of its assets and business to another Subsidiary of the Guarantor, the transferee shall become a Guarantor Material Subsidiary and the transferor shall cease to be a Guarantor Material Subsidiary on completion of such transfer;

"**Holder**", in the case of Bearer Notes, has the meaning given in Condition 3(b) (*Form, Denomination, Title and Transfer – Title to Bearer Notes*) and, in the case of Registered Notes, has the meaning given in Condition 3(d) (*Form, Denomination, Title and Transfer – Title to Registered Notes*);

"**Hong Kong**" means the Hong Kong Special Administrative Region of the People's Republic of China;

"**Indebtedness**" means any indebtedness of any Person for money borrowed or raised;

"**Interest Amount**" means, in relation to a Note and an Interest Period, the amount of interest payable in respect of that Note for that Interest Period;

"**Interest Commencement Date**" means the Issue Date of the Notes or such other date as may be specified as the Interest Commencement Date in the relevant Pricing Supplement;

"**Interest Determination Date**" has the meaning given in the relevant Pricing Supplement;

"**Interest Payment Date**" means the First Interest Payment Date and any date or dates specified as such in, or determined in accordance with the provisions of, the relevant Pricing Supplement and, if a Business Day Convention is specified in the relevant Pricing Supplement:

(a) as the same may be adjusted in accordance with the relevant Business Day Convention; or

(b) if the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention and an interval of a number of calendar months is specified in the relevant Pricing Supplement as being the Specified Period, each of such dates as may occur in accordance with the FRN Convention, Floating Rate Convention or Eurodollar Convention at such Specified Period of calendar months following the Interest Commencement Date (in the case of the first Interest Payment Date) or the previous Interest Payment Date (in any other case);

"**Interest Period**" means each period beginning on (and including) the Interest Commencement Date or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date;

"**ISDA Definitions**" means the 2006 ISDA Definitions (as amended and updated as at the date of issue of the first Tranche of the Notes of the relevant Series (as specified in the relevant Pricing Supplement) as published by the International Swaps and Derivatives Association, Inc.) unless otherwise specified in the relevant Pricing Supplement;

"**Issue Date**" has the meaning given in the relevant Pricing Supplement;

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

"**Maturity Date**" has the meaning given in the relevant Pricing Supplement;

"**Maximum Redemption Amount**" has the meaning given in the relevant Pricing Supplement;

"**Minimum Redemption Amount**" has the meaning given in the relevant Pricing Supplement;

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

"**NDRC Circular**" means the Circular on Promoting the Reform of the Administrative System on the Issuance by Enterprises of Foreign Debt Filings and Registrations (國家發展改革委關於推進企業發行外債備案登記制管理改革的通知(發改外資[2015] 2044 號)) issued by the NDRC and which came into effect on 14 September 2015 and any implementation rules or policies as issued by the NDRC from time to time;

"**Noteholder**", in the case of Bearer Notes, has the meaning given in Condition 3(b) (*Form, Denomination, Title and Transfer – Title to Bearer Notes*) and, in the case of Registered Notes, has the meaning given in Condition 3(d) (*Form, Denomination, Title and Transfer – Title to Registered Notes*);

"**Optional Redemption Amount (Call)**" means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Pricing Supplement;

"**Optional Redemption Amount (Put)**" means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Pricing Supplement;

"**Optional Redemption Date (Call)**" has the meaning given in the relevant Pricing Supplement;

"**Optional Redemption Date (Put)**" has the meaning given in the relevant Pricing Supplement;

"**Participating Member State**" means a Member State of the European Communities which adopts the euro as its lawful currency in accordance with the Treaty;

"**Payment Business Day**" means:

(a) if the currency of payment is euro, any day which is:

   (i) a day on which (a) banks in the relevant place of presentation are open for presentation and payment of bearer debt securities and for dealings in foreign currencies; and (b) a day on which commercial banks are open for general business (including dealings in foreign currencies) in the city where the Issuing and Paying Agent or, as the case may be, the CMU Lodging and Paying Agent has its Specified Office; and

   (ii) in the case of payment by transfer to an account, a TARGET Settlement Day and a day on which dealings in foreign currencies may be carried on in each (if any) Additional Financial Centre; or

(b) if the currency of payment is not euro, any day which is:

   (i) a day on which (a) banks in the relevant place of presentation are open for presentation and payment of bearer debt securities and for dealings in foreign currencies and (b) a day on which commercial banks are open for general business (including dealings in foreign currencies) in the city where the Issuing and Paying Agent or, as the case may be, the CMU Lodging and Paying Agent has its Specified Office; and

(ii) in the case of payment by transfer to an account, a day on which dealings in foreign currencies (including, in the case of Notes denominated in Renminbi, settlement of Renminbi payments) may be carried on in the Principal Financial Centre of the currency of payment and in each (if any) Additional Financial Centre;

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

"**Principal Financial Centre**" means, in relation to any currency, the principal financial centre for that currency **provided, however, that**:

(a) in relation to euro, it means the principal financial centre of such Member State of the European Communities as is selected (in the case of a payment) by the payee or (in the case of a calculation) by the Calculation Agent;

(b) in relation to Australian dollars, it means Sydney and in relation to New Zealand dollars, it means Auckland, in each case as is selected (in the case of a payment) by the payee or (in the case of a calculation) by the Calculation Agent or, in each case, the principal financial centre as is specified in the applicable Pricing Supplement; and

(c) in relation to Renminbi, it means Hong Kong or the principal financial centre as is specified in the applicable Pricing Supplement;

"**Public External Indebtedness**" means any indebtedness of the Issuer or the Guarantor or any of their respective Subsidiaries, as the case may be, or any guarantee or indemnity by the Issuer or the Guarantor, as the case may be, of indebtedness, for money borrowed which (x) is in the form of or represented by any bond, note, debenture, debenture stock, loan stock, certificate or other instrument which is issued outside the PRC and is, or is capable of being listed, quoted or traded on any stock exchange or in any securities market (including, without limitation, any over-the-counter market) outside the People's Republic of China (for the purposes hereof not including the Hong Kong and Macau Special Administration Regions or Taiwan) (without regard, however, to whether or not such instruments are sold through public offerings or private placements); and (y) has an original maturity of more than 365 days;

"**Put Option Notice**" means a notice which must be delivered to a Paying Agent by any Noteholder wanting to exercise a right to redeem a Note at the option of the Noteholder;

"**Put Option Receipt**" means a receipt issued by a Paying Agent to a depositing Noteholder upon deposit of a Note with such Paying Agent by any Noteholder wanting to exercise a right to redeem a Note at the option of the Noteholder;

"**Rate of Interest**" means the rate or rates (expressed as a percentage per annum) of interest payable in respect of the Notes specified in the relevant Pricing Supplement or calculated or determined in accordance with the provisions of these Conditions and/or the relevant Pricing Supplement;

"**Redemption Amount**" means, as appropriate, the Final Redemption Amount, the Early Redemption Amount (Tax), the Early Redemption Amount (Change of Control), the Optional Redemption Amount

(Call), the Optional Redemption Amount (Put), the Early Termination Amount or such other amount in the nature of a redemption amount as may be specified in, or determined in accordance with the provisions of, the relevant Pricing Supplement;

"**Reference Banks**" has the meaning given in the relevant Pricing Supplement or, if none, four major banks selected by the Calculation Agent in the market that is most closely connected with the Reference Rate;

"**Reference Price**" has the meaning given in the relevant Pricing Supplement;

"**Reference Rate**" has the meaning given in the relevant Pricing Supplement;

"**Regular Period**" means:

(a) in the case of Notes where interest is scheduled to be paid only by means of regular payments, each period from and including the Interest Commencement Date to but excluding the first Interest Payment Date and each successive period from and including one Interest Payment Date to but excluding the next Interest Payment Date;

(b) in the case of Notes where, apart from the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where "**Regular Date**" means the day and month (but not the year) on which any Interest Payment Date falls; and

(c) in the case of Notes where, apart from one Interest Period other than the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where "**Regular Date**" means the day and month (but not the year) on which any Interest Payment Date falls other than the Interest Payment Date falling at the end of the irregular Interest Period.

"**Relevant Date**" means, in relation to any payment, whichever is the later of (a) the date on which the payment in question first becomes due and (b) if the full amount payable has not been received in the Principal Financial Centre of the currency of payment by the Issuing and Paying Agent or CMU Lodging and Paying Agent on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders;

"**Relevant Financial Centre**" has the meaning given in the relevant Pricing Supplement;

"**Relevant Screen Page**" means the page, section or other part of a particular information service (including, without limitation, Reuters) specified as the Relevant Screen Page in the relevant Pricing Supplement, or such other page, section or other part as may replace it on that information service or such other information service, in each case, as may be nominated by the Person providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to the Reference Rate;

"**Relevant Time**" has the meaning given in the relevant Pricing Supplement;

"**Reserved Matter**" means any proposal:

(a) to change any date fixed for payment of principal or interest in respect of the Notes, to reduce the amount of principal or interest payable on any date in respect of the Notes or to alter the method of calculating the amount of any payment in respect of the Notes on redemption or maturity or the date for any such payment;

(b) to effect the exchange or substitution of the Notes for, or the conversion of the Notes into, shares, bonds or other obligations or securities of the Issuer or the Company or any other person or body corporate formed or to be formed;

(c) to change the currency in which amounts due in respect of the Notes are payable;

(d) to modify any provision of the Guarantee of the Notes;

(e) to change the quorum required at any meeting or the majority required to pass an Extraordinary Resolution; or

(f) to amend this definition;

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

"**Specified Currency**" has the meaning given in the relevant Pricing Supplement;

"**Specified Denomination(s)**" has the meaning given in the relevant Pricing Supplement;

"**Specified Office**" has the meaning given in the Agency Agreement;

"**Specified Period**" has the meaning given in the relevant Pricing Supplement;

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

(a) of which the first Person controls or has the power to control, 50 per cent. or more of the share capital or other ownership interest having ordinary voting power to elect directors, managers or trustees of such person; or

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

"**Talon**" means a talon for further Coupons;

"**TARGET2**" means the Trans-European Automated Real-Time Gross Settlement Express Transfer payment system which utilises a single shared platform and which was launched on 19 November 2007;

"**TARGET Settlement Day**" means any day on which TARGET2 is open for the settlement of payments in euro;

"**Treaty**" means the Treaty establishing the European Communities, as amended; and

"**Zero Coupon Note**" means a Note specified as such in the relevant Pricing Supplement.

(b) *Interpretation*: In these Conditions:

(i) if the Notes are Zero Coupon Notes, references to Coupons and Couponholders are not applicable;

(ii) if Talons are specified in the relevant Pricing Supplement as being attached to the Notes at the time of issue, references to Coupons shall be deemed to include references to Talons;

(iii) if Talons are not specified in the relevant Pricing Supplement as being attached to the Notes at the time of issue, references to Talons are not applicable;

(iv) any reference to principal shall be deemed to include the Redemption Amount, any additional amounts in respect of principal which may be payable under Condition 13 (*Taxation*), any undertaking given in addition to or substitution for Condition 13 (*Taxation*), any premium payable in respect of a Note and any other amount in the nature of principal payable pursuant to these Conditions;

(v) any reference to interest shall be deemed to include any additional amounts in respect of interest which may be payable under Condition 13 (*Taxation*) and any other amount in the nature of interest payable pursuant to these Conditions;

(vi) references to Notes being "outstanding" shall be construed in accordance with the Agency Agreement;

(vii) if an expression is stated in Condition 2(a) (**Interpretation – Definitions**) to have the meaning given in the relevant Pricing Supplement, but the relevant Pricing Supplement gives no such meaning or specifies that such expression is "not applicable" then such expression is not applicable to the Notes; and

(viii) any reference to the Agency Agreement or the Deed of Guarantee shall be construed as a reference to the Agency Agreement or the Deed of Guarantee, as the case may be, as amended and/or supplemented up to and including the Issue Date of the Notes.

3. **Form, Denomination, Title and Transfer**

(a) *Bearer Notes*: Bearer Notes are in the Specified Denomination(s) with Coupons and, if specified in the relevant Pricing Supplement, Talons attached at the time of issue. In the case of a Series of Bearer Notes with more than one Specified Denomination, Bearer Notes of one Specified Denomination will not be exchangeable for Bearer Notes of another Specified Denomination.

(b) *Title to Bearer Notes*: Title to Bearer Notes and the Coupons will pass by delivery. In the case of Bearer Notes, "**Holder**" means the holder of such Bearer Note and "**Noteholder**" and "**Couponholder**" shall be construed accordingly.

(c) *Registered Notes*: Registered Notes are in the Specified Denomination(s), which may include a minimum denomination specified in the relevant Pricing Supplement and higher integral multiples of a smaller amount specified in the relevant Pricing Supplement.

(d) *Title to Registered Notes*: The Registrar will maintain a register outside the United Kingdom in accordance with the provisions of the Agency Agreement. A certificate (each, a "**Note Certificate**") will be issued to each Holder of Registered Notes in respect of its registered holding. Each Note Certificate will be numbered serially with an identifying number which will be recorded in the Register. In the case of Registered Notes, "**Holder**" means the person in whose name such Registered Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and "**Noteholder**" shall be construed accordingly.

(e) *Ownership*: The Holder of any Note or Coupon shall (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing thereon or, in the case of Registered Notes, on the Note Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft thereof) and no Person shall be liable for so treating such Holder. No person shall have any right to enforce any term or condition of any Note under the Contracts (Rights of Third Parties) Act 1999.

(f) *Transfers of Registered Notes*: Subject to paragraphs (i) (*Closed periods*) and (j) (*Regulations concerning transfers and registration*) below, a Registered Note may be transferred upon surrender of the relevant Note Certificate, with the endorsed form of transfer duly completed, at the Specified Office of the Registrar or any Transfer Agent, together with such evidence as the Registrar or (as the case may be) such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; **provided, however, that** a Registered Note may not be transferred unless the principal amount of Registered Notes transferred and (where not all of the Registered Notes held by a Holder are being transferred) the principal amount of the balance of Registered Notes not transferred are in Specified Denominations. Where not all the Registered Notes represented by the surrendered Note Certificate are the subject of the transfer, a new Note Certificate in respect of the balance of the Registered Notes will be issued to the transferor.

(g) *Registration and delivery of Note Certificates*: Within five business days of the surrender of a Note Certificate in accordance with paragraph (f) (*Transfers of Registered Notes*) above, the Registrar will register the transfer in question and deliver a new Note Certificate of a like principal amount to the Registered Notes transferred to each relevant Holder at its Specified Office or (as the case may be) the Specified Office of any Transfer Agent or (at the request and risk of any such relevant Holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant Holder. In this paragraph, "**business day**" means a day on which commercial banks are open for general business (including dealings in foreign currencies) in the city where the Registrar or (as the case may be) the relevant Transfer Agent has its Specified Office.

(h) *No charge*: The transfer of a Registered Note will be effected without charge by or on behalf of the Issuer or the Registrar or any Transfer Agent but against such indemnity as the Registrar or (as the case may be) such Transfer Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

(i) *Closed periods*: Noteholders may not require transfers to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Registered Notes.

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

Transfers of interests in the Notes evidenced by a Global Note or a Global Note Certificate will be effected in accordance with the rules of the relevant clearing system.

4. **Status and Guarantee**

(a) *Status of the Notes*: The Notes constitute direct, general and unconditional obligations of the Issuer which will at all times rank pari passu among themselves and at least pari passu with all other present and future unsecured obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

(b) *Status of the Guarantee*: The Guarantor has in the Deed of Guarantee unconditionally and irrevocably guaranteed the due and punctual payment of all sums from time to time payable by the Issuer in respect of the Notes. This Guarantee of the Notes constitutes direct, unconditional, unsubordinated, general, unsecured obligations of the Guarantor which will at all times rank at least equally with all other outstanding unsecured or unsubordinated Public External Indebtedness of the Guarantor (except for any statutory preference or priority applicable in the winding-up of the Guarantor).

5. **Covenants**

(a) *Rating Maintenance*: So long as any Note remains outstanding, save with the approval of an Extraordinary Resolution of Noteholders, each of the Issuer and the Guarantor undertakes that it will use all its reasonable endeavours to maintain a rating on the Notes by a Rating Agency specified in the Pricing Supplement.

(b) *Limitation on the Issuer*: So long as Note remains outstanding, the Issuer undertakes not to, and the Guarantor undertakes to use all its reasonable endeavours to procure that the Issuer will not, conduct any business or any activities other than the issue of the Notes or other bonds or notes under this Programme and the lending of the proceeds thereof to the Company or any of the Company's Subsidiaries and affiliates and any other activities reasonably incidental thereto as necessary in connection therewith.

(c) ***Notification to NDRC***: Where the NDRC Circular applies to the Tranche of Notes to be issued in accordance with these Conditions and the Agency Agreement, the Issuer undertakes to provide or cause to be provided a notification to the NDRC of the requisite information and documents within the prescribed timeframe after the relevant Issue Date in accordance with the NDRC Circular and any implementation rules as may be issued by the NDRC prior to the completion of such notification.

6. **Fixed Rate Note Provisions**

(a) *Application*: This Condition 6 (*Fixed Rate Note Provisions*) is applicable to the Notes only if the Fixed Rate Note Provisions are specified in the relevant Pricing Supplement as being applicable.

(b) *Accrual of interest*: The Notes bear interest from the Interest Commencement Date at the Rate of Interest payable in arrear on each Interest Payment Date, subject as provided in Condition 11 (*Payments—Bearer Notes*) and Condition 12 (*Payments—Registered Notes*). Each Note will cease to bear interest from the due date for final redemption unless, upon due presentation, payment of the Redemption Amount is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition 6 (as well after as before judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Fiscal Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

(c) *Fixed Coupon Amount*: The amount of interest payable in respect of each Note for any Interest Period shall be the relevant Fixed Coupon Amount and, if the Notes are in more than one Specified Denomination, shall be the relevant Fixed Coupon Amount in respect of the relevant Specified Denomination.

(d) *Calculation of interest amount*: The amount of interest payable in respect of each Note for any period for which a Fixed Coupon Amount is not specified shall be calculated by applying the Rate of Interest to the Calculation Amount, multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards) and multiplying such rounded figure by a fraction equal to the Specified Denomination of such Note divided by the Calculation Amount. For this purpose a "**sub-unit**" means, in the case of any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of euro, means one cent.

7. **Floating Rate Note and Index-Linked Interest Note Provisions**

(a) *Application*: This Condition 7 (*Floating Rate Note and Index-Linked Interest Note Provisions*) is applicable to the Notes only if the Floating Rate Note Provisions or the Index-Linked Interest Note Provisions are specified in the relevant Pricing Supplement as being applicable.

(b) *Accrual of interest*: The Notes bear interest from the Interest Commencement Date at the Rate of Interest payable in arrear on each Interest Payment Date, subject as provided in Condition 11 (*Payments—Bearer Notes*) and Condition 12 (*Payments—Registered Notes*). Each Note will cease to bear interest from the due date for final redemption unless, upon due presentation, payment of the Redemption Amount is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition (as well after as before judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Fiscal Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

(c) *Screen Rate Determination*: If Screen Rate Determination is specified in the relevant Pricing Supplement as the manner in which the Rate(s) of Interest is/are to be determined, the Rate of Interest applicable to the Notes for each Interest Period will be determined by the Calculation Agent on the following basis:

(i) if the Reference Rate is a composite quotation or customarily supplied by one entity, the Calculation Agent will determine the Reference Rate which appears on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date;

(ii) in any other case, the Calculation Agent will determine the arithmetic mean of the Reference Rates which appear on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date;

(iii) if, in the case of (i) above, such rate does not appear on that page or, in the case of (ii) above, fewer than two such rates appear on that page or if, in either case, the Relevant Screen Page is unavailable, the Calculation Agent will:

(A) request the principal Relevant Financial Centre office of each of the Reference Banks to provide a quotation of the Reference Rate at approximately the Relevant Time on the Interest Determination Date to prime banks in the Relevant Financial Centre interbank market in an amount that is representative for a single transaction in that market at that time; and

(B) determine the arithmetic mean of such quotations; and

(iv) if fewer than two such quotations are provided as requested, the Calculation Agent will determine the arithmetic mean of the rates (being the nearest to the Reference Rate, as determined by the Calculation Agent) quoted by major banks in the Principal Financial Centre of the Specified Currency, selected by the Calculation Agent, at approximately 11.00 a.m. (local time in the Principal Financial Centre of the Specified Currency) on the first day of the relevant Interest Period for loans in the Specified Currency to major banks in the Principal Financial Centre of the Specified Currency for a period equal to the relevant Interest Period and in an amount that is representative for a single transaction in that market at that time, and the Rate of Interest for such Interest Period shall be the sum of the Margin and the rate or (as the case may be) the arithmetic mean so determined; **provided, however, that** if the Calculation Agent is unable to determine a rate or (as the case may be) an arithmetic mean in accordance with the above provisions in relation to any Interest Period, the Rate of Interest applicable to the Notes during such Interest Period will be the sum of the Margin and the rate or (as the case may be) the arithmetic mean last determined in relation to the Notes in respect of a preceding Interest Period.

(d) *ISDA Determination*: If ISDA Determination is specified in the relevant Pricing Supplement as the manner in which the Rate(s) of Interest is/are to be determined, the Rate of Interest applicable to the Notes for each Interest Period will be the sum of the Margin and the relevant ISDA Rate where "ISDA Rate" in relation to any Interest Period means a rate equal to the Floating Rate (as defined in the ISDA Definitions) that would be determined by the Calculation Agent under an interest rate swap transaction if the Calculation Agent were acting as calculation agent for that interest rate swap transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

(i) the Floating Rate Option (as defined in the ISDA Definitions) is as specified in the relevant Pricing Supplement;

(ii) the Designated Maturity (as defined in the ISDA Definitions) is a period specified in the relevant Pricing Supplement; and

(iii) the relevant Reset Date (as defined in the ISDA Definitions) is either (A) if the relevant Floating Rate Option is based on (x) the London inter-bank offered rate (LIBOR), (y) the Eurozone inter-bank offered rate (EURIBOR) or (z) the Hong Kong inter-bank offered rate (HIBOR) for a currency, the first day of that Interest Period or (B) in any other case, as specified in the relevant Pricing Supplement.

(e) *Index-Linked Interest*: If the Index-Linked Interest Note Provisions are specified in the relevant Pricing Supplement as being applicable, the Rate(s) of Interest applicable to the Notes for each Interest Period will be determined in the manner specified in the relevant Pricing Supplement.

(f) *Maximum or Minimum Rate of Interest*: If any Maximum Rate of Interest or Minimum Rate of Interest is specified in the relevant Pricing Supplement, then the Rate of Interest shall in no event be greater than the maximum or be less than the minimum so specified.

(g) *Calculation of Interest Amount*: The Calculation Agent will, as soon as practicable after the time at which the Rate of Interest is to be determined in relation to each Interest Period, calculate the Interest Amount payable in respect of each Note for such Interest Period. The Interest Amount will be calculated by applying the Rate of Interest for such Interest Period to the Calculation Amount, multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards) and multiplying such rounded figure by a fraction equal to the Specified Denomination of the relevant Note divided by the Calculation Amount. For this purpose a "**sub-unit**" means, in the case of any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of euro, means one cent.

(h) *Calculation of other amounts*: If the relevant Pricing Supplement specifies that any other amount is to be calculated by the Calculation Agent, the Calculation Agent will, as soon as practicable after the time or times at which any such amount is to be determined, calculate the relevant amount. The relevant amount will be calculated by the Calculation Agent in the manner specified in the relevant Pricing Supplement.

(i) *Publication*: The Calculation Agent will cause each Rate of Interest and Interest Amount determined by it, together with the relevant Interest Payment Date, and any other amount(s) required to be determined by it together with any relevant payment date(s) to be notified to the Paying Agents and each competent authority, stock exchange and/or quotation system (if any) by which the Notes have then been admitted to listing, trading and/or quotation as soon as practicable after such determination but (in the case of each Rate of Interest, Interest Amount and Interest Payment Date) in any event not later than the first day of the relevant Interest Period. Notice thereof shall also promptly be given to the Noteholders. The Calculation Agent will be entitled to recalculate any Interest Amount (on the basis of the foregoing provisions) without notice in the event of an extension or shortening of the relevant Interest Period. If the Calculation Amount is less than the minimum Specified Denomination the Calculation Agent shall not be obliged to publish each Interest Amount but instead may publish only the Calculation Amount and the Interest Amount in respect of a Note having the minimum Specified Denomination.

(j) *Notifications etc.*: All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition by the Calculation Agent will (in the absence of manifest error) be binding on the Issuer, the Paying Agents, the Noteholders and the Couponholders and (subject as aforesaid) no liability to any such Person will attach to the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.

8. **Zero Coupon Note Provisions**

(a) *Application*: This Condition 8 (*Zero Coupon Note Provisions*) is applicable to the Notes only if the Zero Coupon Note Provisions are specified in the relevant Pricing Supplement as being applicable.

(b) *Late payment on Zero Coupon Notes*: If the Redemption Amount payable in respect of any Zero Coupon Note is improperly withheld or refused, the Redemption Amount shall thereafter be an amount equal to the sum of:

(i) the Reference Price; and

(ii) the product of the Accrual Yield (compounded annually) being applied to the Reference Price on the basis of the relevant Day Count Fraction from (and including) the Issue Date to (but excluding) whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Fiscal Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

9. **Dual Currency Note Provisions**

(a) *Application*: This Condition 9 (*Dual Currency Note Provisions*) is applicable to the Notes only if the Dual Currency Note Provisions are specified in the relevant Pricing Supplement as being applicable.

(b) *Rate of Interest*: If the rate or amount of interest falls to be determined by reference to an exchange rate, the rate or amount of interest payable shall be determined in the manner specified in the relevant Pricing Supplement.

10. **Redemption and Purchase**

(a) *Scheduled redemption*: Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their Final Redemption Amount on the Maturity Date, subject as provided in Condition 11 (*Payments—Bearer Notes*) and Condition 12 (*Payments—Registered Notes*).

(b) *Redemption for tax reasons*: The Notes may be redeemed at the option of the Issuer in whole, but not in part:

(i) at any time (if neither the Floating Rate Note Provisions or the Index-Linked Interest Note Provisions are specified in the relevant Pricing Supplement as being applicable); or

(ii) on any Interest Payment Date (if the Floating Rate Note Provisions or the Index-Linked Interest Note Provisions are specified in the relevant Pricing Supplement as being applicable),

on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable), at their Early Redemption Amount (Tax), together with interest accrued (if any) to the date fixed for redemption, if:

(A) (1) the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 13 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of the British Virgin Islands or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after the date of issue of the first Tranche of the Notes and (2) such obligation cannot be avoided by the Issuer taking reasonable measures available to it; or

(B) (1) the Guarantor has or (if a demand was made under the Guarantee of the Notes) would become obliged to pay additional amounts as provided or referred to in Condition 13 (*Taxation*) or the Guarantee of the Notes, as a result of any change in, or amendment to, the laws or regulations of Macau or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after the date of issue of the first Tranche of the Notes and (2) such obligation cannot be avoided by the Guarantor taking reasonable measures available to it,

provided, however, that no such notice of redemption shall be given earlier than:

(1) where the Notes may be redeemed at any time, 90 days prior to the earliest date on which the Issuer or the Guarantor, as the case may be, would be obliged to pay such additional amounts if a payment in respect of the Notes were then due or (as the case may be) a demand under the Guarantee of the Notes were then made; or

(2) where the Notes may be redeemed only on an Interest Payment Date, 60 days prior to the Interest Payment Date occurring immediately before the earliest date on which the Issuer would be obliged to pay such additional amounts if a payment in respect of the Notes were then due or (as the case may be) a demand under the Guarantee of the Notes were then made.

Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver or procure that there is delivered to the Fiscal Agent (1) a certificate signed by an authorised officer of the Issuer (or the Guarantor, as the case may be) stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred and (2) an opinion of independent legal or tax advisers of recognised standing to the effect that the Issuer or (as the case may be) the Guarantor has or will become obliged to pay such additional amounts as a result of such change or amendment. Upon the expiry of any such notice as is referred to in this Condition 10(b), the Issuer shall be bound to redeem the Notes in accordance with this Condition 10(b).

(c) *Redemption at the option of the Issuer:* If the Call Option is specified in the relevant Pricing Supplement as being applicable, the Notes may be redeemed at the option of the Issuer in whole or, if so specified in the relevant Pricing Supplement, in part on any Optional Redemption Date (Call) at the relevant Optional Redemption Amount (Call) on the Issuer's giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable and shall oblige the Issuer to redeem the Notes or, as the case may be, the Notes specified in such notice on the relevant Optional Redemption Date (Call) at the Optional Redemption Amount (Call) plus accrued interest (if any) to such date).

(d) *Partial redemption*: If the Notes are to be redeemed in part only on any date in accordance with Condition 10(c) (*Redemption at the option of the Issuer*), in the case of Bearer Notes, the Notes to be redeemed shall be selected by the drawing of lots, subject to compliance with applicable law, the rules of each competent authority, stock exchange and/or quotation system (if any) by which the Notes have then been admitted to listing, trading and/or quotation and the notice to Noteholders referred to in Condition 10(c) (*Redemption at the option of the Issuer*) shall specify the serial numbers of the Notes so to be redeemed, and, in the case of Registered Notes, each Note shall be redeemed in part in the proportion which the aggregate principal amount of the outstanding Notes to be redeemed on the relevant Optional Redemption Date (Call) bears to the aggregate principal amount of outstanding Notes on such date. If any Maximum Redemption Amount or Minimum Redemption Amount is specified in the relevant Pricing Supplement, then the Optional Redemption Amount (Call) shall in no event be greater than the maximum or be less than the minimum so specified.

(e) *Redemption at the option of Noteholders:* If the Put Option is specified in the relevant Pricing Supplement as being applicable, the Issuer shall, at the option of the Holder of any Note redeem such Note on the Optional Redemption Date (Put) specified in the relevant Put Option Notice at the relevant Optional Redemption Amount (Put) together with interest (if any) accrued to such date. In order to exercise the option contained in this Condition 10(e), the Holder of a Note must, not less than 30 nor more than 60 days before the relevant Optional Redemption Date (Put), deposit with any Paying Agent such Note together with all unmatured Coupons relating thereto and a duly completed Put Option Notice in the form obtainable from any Paying Agent. The Paying Agent with which a Note is so deposited shall deliver a duly completed Put Option Receipt to the depositing Noteholder. No Note, once deposited with a duly completed Put Option Notice in accordance with this Condition 10(e), may be withdrawn; **provided, however, that if,** prior to the relevant Optional Redemption Date (Put), any such Note becomes immediately due and payable or, upon due presentation of any such Note on the relevant Optional Redemption Date (Put), payment of the redemption moneys is improperly withheld or refused, the relevant Paying Agent shall mail notification thereof to the depositing Noteholder at such address as may have been given by such Noteholder in the relevant Put Option Notice and shall hold such Note at its Specified Office for collection by the depositing Noteholder against surrender of the relevant Put Option Receipt. For so long as any outstanding Note is held by a Paying Agent in accordance with this Condition 10(e), the depositor of such Note and not such Paying Agent shall be deemed to be the Holder of such Note for all purposes.

For so long as the Notes are represented by a Global Note or a Global Note Certificate, the exercise of any Put Option specified in a relevant Pricing Supplement shall be processed according to the customary procedure of the relevant clearing system(s).

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

(g) *Early redemption of Zero Coupon Notes*: Unless otherwise specified in the relevant Pricing Supplement, the Redemption Amount payable on redemption of a Zero Coupon Note at any time before the Maturity Date shall be an amount equal to the sum of:

(i) the Reference Price; and

(ii) the product of the Accrual Yield (compounded annually) being applied to the Reference Price from (and including) the Issue Date to (but excluding) the date fixed for redemption or (as the case may be) the date upon which the Note becomes due and payable.

Where such calculation is to be made for a period which is not a whole number of years, the calculation in respect of the period of less than a full year shall be made on the basis of such Day Count Fraction as may be specified in the Pricing Supplement for the purposes of this Condition 10(g) or, if none is so specified, a Day Count Fraction of 30E/360.

(h) Purchase: Subject to applicable law, the Issuer, the Guarantor or any of their respective subsidiaries may at any time purchase Notes in the open market or otherwise and at any price, **provided that** all unmatured Coupons are purchased therewith. The Notes so purchased, while held by or on behalf of the Issuer, the Guarantor or any such subsidiary, shall not entitle the holder to vote at any meetings of the Noteholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Noteholders or for the purposes of Condition 18 (*Meetings of Noteholders; Modification and Waiver*).

11. Payments—Bearer Notes

This Condition 11 is only applicable to Bearer Notes.

(a) *Principal:* In relation to Bearer Notes not held in the CMU Service, payments of principal shall be made only against presentation and (**provided that** payment is made in full) surrender of Bearer Notes at the Specified Office of any Paying Agent outside the United States (i) in the case of a currency other than Renminbi, by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the Principal Financial Centre of that currency, and (ii) in the case of Renminbi, by transfer to an account denominated in that currency and maintained by the payee with a bank in the Principal Financial Centre of that currency.

(b) *Interest:* In relation to Bearer Notes not held in the CMU Service, payments of interest shall, subject to paragraph (h) below, be made only against presentation and (**provided that** payment is made in full) surrender of the appropriate Coupons at the Specified Office of any Paying Agent outside the United States in the manner described in paragraph (a) above.

(c) *Payments in relation to Bearer Notes held in the CMU Service:* In relation to Bearer Notes held in the CMU Service, payments of principal and interest in respect of Bearer Notes held in the CMU Service will be made to the person(s) for whose account(s) interests in the relevant Bearer Notes are credited as being held with the CMU Service in accordance with the CMU Rules (as defined in the Agency Agreement) at the relevant time.

(d) *Payments in New York City*: Payments of principal or interest may be made at the Specified Office of a Paying Agent in New York City if (i) the Issuer has appointed Paying Agents outside the United States with the reasonable expectation that such Paying Agents will be able to make payment of the full amount of the interest on the Notes in the currency in which the payment is due when due, (ii) payment of the full amount of such interest at the offices of all such Paying Agents is illegal or effectively precluded by exchange controls or other similar restrictions and (iii) payment is permitted by applicable United States law.

(e) *Payments subject to fiscal laws:* All payments in respect of the Bearer Notes are subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 13 (*Taxation*) and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 13 (*Taxation*)) any law implementing an intergovernmental approach thereto. No commissions or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.

(f) *Deductions for unmatured Coupons*: If the relevant Pricing Supplement specifies that the Fixed Rate Note Provisions are applicable and a Bearer Note is presented without all unmatured Coupons relating thereto:

(i) if the aggregate amount of the missing Coupons is less than or equal to the amount of principal due for payment, a sum equal to the aggregate amount of the missing Coupons will be deducted from the amount of principal due for payment; provided, however, that if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of such missing Coupons which the gross amount actually available for payment bears to the amount of principal due for payment;

(ii) if the aggregate amount of the missing Coupons is greater than the amount of principal due for payment:

(A) so many of such missing Coupons shall become void (in inverse order of maturity) as will result in the aggregate amount of the remainder of such missing Coupons (the "**Relevant Coupons**") being equal to the amount of principal due for payment; **provided, however, that** where this sub-paragraph would otherwise require a fraction of a missing Coupon to become void, such missing Coupon shall become void in its entirety; and

(B) a sum equal to the aggregate amount of the Relevant Coupons (or, if less, the amount of principal due for payment) will be deducted from the amount of principal due for payment; **provided, however, that**, if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of the Relevant Coupons (or, as the case may be, the amount of principal due for payment) which the gross amount actually available for payment bears to the amount of principal due for payment.

Each sum of principal so deducted shall be paid in the manner provided in paragraph (a) above against presentation and (**provided that** payment is made in full) surrender of the relevant missing Coupons.

(g) *Unmatured Coupons void*: If the relevant Pricing Supplement specifies that this Condition 11(g) is applicable or that the Floating Rate Note Provisions or the Index-Linked Interest Note Provisions are applicable, on the due date for final redemption of any Note or early redemption in whole of such Note pursuant to Condition 10(b) (*Redemption for tax reasons*), Condition 10(e) (*Redemption at the option of Noteholders*), Condition 10(c) (*Redemption at the option of the Issuer*) or Condition 14 (*Events of Default*), all unmatured Coupons relating thereto (whether or not still attached) shall become void and no payment will be made in respect thereof.

(h) *Payments on business days*: If the due date for payment of any amount in respect of any Bearer Note or Coupon is not a Payment Business Day in the place of presentation, the Holder shall not be entitled to payment in such place of the amount due until the next succeeding Payment Business Day in such place and shall not be entitled to any further interest or other payment in respect of any such delay.

(i) *Payments other than in respect of matured Coupons*: Payments of interest other than in respect of matured Coupons shall be made only against presentation of the relevant Bearer Notes at the Specified Office of any Paying Agent outside the United States (or in New York City if permitted by paragraph (c) above).

(j) *Partial payments*: If a Paying Agent makes a partial payment in respect of any Bearer Note or Coupon presented to it for payment, such Paying Agent will endorse thereon a statement indicating the amount and date of such payment.

(k) *Exchange of Talons*: On or after the maturity date of the final Coupon which is (or was at the time of issue) part of a Coupon Sheet relating to the Bearer Notes, the Talon forming part of such Coupon Sheet may be exchanged at the Specified Office of the Fiscal Agent for a further Coupon Sheet (including, if appropriate, a further Talon but excluding any Coupons in respect of which claims have already become void pursuant to Condition 15 (*Prescription*). Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Note shall become void and no Coupon will be delivered in respect of such Talon.

12. Payments—Registered Notes

This Condition 12 is only applicable to Registered Notes.

(a) *Principal*: In relation to Registered Notes not held in the CMU Service, payments of principal shall be made (i) in the case of a currency other than Renminbi, upon application by a Holder of a Registered Note to the Specified Office of the Fiscal Agent not later than the fifteenth day before the due date for any such payment, by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the Principal Financial Centre of that currency, and (ii) in the case of Renminbi, by transfer to an account denominated in that currency and maintained by the payee with a bank in Hong Kong, and (in the case of redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.

(b) *Interest*: In relation to Registered Notes not held in the CMU Service, payments of interest shall (i) in the case of a currency other than Renminbi, be made upon application by a Holder of a Registered Note to the Specified Office of the Fiscal Agent not later than the fifteenth day before the due date for any such payment, by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the Principal Financial Centre of that currency, and (ii) in the case of Renminbi, by transfer to an account denominated in that currency and maintained by the payee with a bank in Hong Kong, and (in the case of interest payable on redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.

(c) *Payments in relation to Registered Notes held in the CMU Service:* In relation to Registered Notes held in the CMU Service, payments of principal and interest in respect of Registered Notes held in the CMU Service will be made to the person(s) for whose account(s) interests in the relevant Registered Notes are credited as being held with the CMU Service in accordance with the CMU Rules (as defined in the Agency Agreement) at the relevant time.

(d) *Payments subject to fiscal laws:* All payments in respect of the Registered Notes are subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 13 (*Taxation*) and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the Code or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 13 (*Taxation*)) any law implementing an intergovernmental approach thereto. No commissions or expenses shall be charged to the Noteholders in respect of such payments.

(e) *Payments on business days*: Where payment is to be made by transfer to an account, payment instructions (for value the due date, or, if the due date is not Payment Business Day, for value the next succeeding Payment Business Day) will be initiated (i) (in the case of payments of principal and interest payable on redemption) on the later of the due date for payment and the day on which the relevant Note Certificate is surrendered (or, in the case of part payment only, endorsed) at the Specified Office of a Paying Agent and (ii) (in the case of payments of interest payable other than on redemption) on the due date for payment. A Holder of a Registered Note shall not be entitled to any interest or other payment in respect of any delay in payment resulting from the due date for a payment not being a Payment Business Day.

(f) *Partial payments*: If a Paying Agent makes a partial payment in respect of any Registered Note, the Issuer shall procure that the amount and date of such payment are noted on the Register and, in the case of partial payment upon presentation of a Note Certificate, that a statement indicating the amount and the date of such payment is endorsed on the relevant Note Certificate.

(g) *Record date*: Each payment in respect of a Registered Note will be made to the person shown as the Holder in the Register at the close of business in the place of the Registrar's Specified Office on the fifth (in the case of Renminbi) and fifteenth (in the case of a currency other than Renminbi) day before the due date for such payment (the "**Record Date**").

So long as the Global Note Certificate is held on behalf of Euroclear, Clearstream, Luxembourg or any other clearing system, each payment in respect of the Global Note Certificate will be made to the person shown as the holder in the Register at the close of business of the relevant clearing system on the Clearing System Business Day before the due date for such payments, where "Clearing System Business Day" means a weekday (Monday to Friday, inclusive) except 25 December and 1 January.

Payments of interest or principal in respect of a Global Note Certificate held through the CMU Service shall be made to the person(s) for whose account(s) interests in the Global Note Certificate are credited as being held with the CMU Service at the relevant time.

13. **Taxation**

(a) *Gross up*: All payments of principal and interest in respect of the Notes and the Coupons by or on behalf of the Issuer or the Guarantor shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the British Virgin Islands, the PRC or Macau or any political subdivision therein or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments, or governmental charges is required by law. In that event, the Issuer or (as the case may be) the Guarantor shall pay such additional amounts as will result in receipt by the Noteholders and the Couponholders after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Note or Coupon:

(i) held by or on behalf of a Holder which is liable to such taxes, duties, assessments or governmental charges in respect of such Note or Coupon by reason of its having some connection with the jurisdiction by which such taxes, duties, assessments or charges have been imposed, levied, collected, withheld or assessed other than the mere holding of the Note or Coupon; or

(ii) where the relevant Note or Coupon or Note Certificate is presented or surrendered for payment more than 30 days after the Relevant Date except to the extent that the Holder of such Note or Coupon would have been entitled to such additional amounts on presenting or surrendering such Note or Coupon or Note Certificate for payment on the last day of such period of 30 days.

(b) *Taxing jurisdiction*: If the Issuer or the Guarantor becomes subject at any time to any taxing jurisdiction other than the British Virgin Islands, Macau or the PRC respectively, references in these Conditions to the British Virgin Islands, Macau or the PRC shall be construed as references to the British Virgin Islands, Macau or (as the case may be) the PRC and/or such other jurisdiction.

14. Events of Default

If any of the following events (each an "**Event of Default**") occurs and is continuing:

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

(b) *Breach of other obligations*: the Issuer or the Guarantor defaults in the performance or observance of any of its other obligations under or in respect of the Notes, the Deed of Covenant, the Deed of Guarantee or the Fiscal Agency Agreement and such default remains unremedied for 45 days after written notice has been delivered to the Issuer or the Guarantor, as the case may be; or

(c) *Insolvency*: the Issuer, the Guarantor or any of its Guarantor Material Subsidiaries is insolvent or bankrupt or unable to pay its debts, stops or suspends payment of all or a material part of its debts, proposes or makes any agreement for the deferral, rescheduling or other readjustment of all or a material part of its debts, proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts or a moratorium is agreed or declared in respect of or affecting all or a material part of the debts of the Issuer, the Guarantor or any of its Guarantor Material Subsidiaries; or

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

(e) *Illegality*: it is or will become unlawful for the Issuer or the Guarantor to perform or comply with any one or more of its obligations under the Notes, the Deed of Covenant, the Deed of Guarantee or the Agency Agreement; or

(f) *Deed of Guarantee:* the Deed of Guarantee is not (or is claimed by the Guarantor not to be) enforceable, valid or in full force and effect,

then any Noteholder may, by written notice addressed to the Issuer and the Guarantor and delivered to the Issuer and the Guarantor or to the Specified Office of the Fiscal Agent, declare the Notes to be immediately due and payable, whereupon they shall become immediately due and payable at their Early Termination Amount together with accrued interest (if any) without further action or formality. Notice of any such declaration shall promptly be given to the Noteholders.

15. Prescription

Claims for principal in respect of Bearer Notes shall become void unless the relevant Bearer Notes are presented for payment within ten years of the appropriate Relevant Date. Claims for interest in respect of Bearer Notes shall become void unless the relevant Coupons are presented for payment within five years of the appropriate Relevant Date. Claims for principal and interest on redemption in respect of Registered Notes shall become void unless the relevant Note Certificates are surrendered for payment within ten years of the appropriate Relevant Date.

16. **Replacement of Notes and Coupons**

If any Note, Note Certificate or Coupon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Fiscal Agent, in the case of Bearer Notes, or the Registrar, in the case of Registered Notes (and, if the Notes are then admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system which requires the appointment of a Paying Agent or Transfer Agent in any particular place, the Paying Agent or Transfer Agent having its Specified Office in the place required by such competent authority, stock exchange and/or quotation system), subject to all applicable laws and competent authority, stock exchange and/or quotation system requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Notes, Note Certificates or Coupons must be surrendered before replacements will be issued.

17. **Agents**

In acting under the Agency Agreement and in connection with the Notes and the Coupons, the Agents act solely as agents of the Issuer and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders or Couponholders.

The initial Agents and their initial Specified Offices are listed below. The initial Calculation Agent (if any) is specified in the relevant Pricing Supplement. The Issuer reserves the right at any time to vary or terminate the appointment of any Agent and to appoint a successor fiscal agent or registrar or Calculation Agent and additional or successor paying agents; **provided, however, that**:

(i) the Issuer shall at all times maintain a fiscal agent and a registrar; and

(ii) if a Calculation Agent is specified in the relevant Pricing Supplement, the Issuer shall at all times maintain a Calculation Agent; and

(iii) if and for so long as the Notes are admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system which requires the appointment of a Paying Agent and/or a Transfer Agent in any particular place, the Issuer shall maintain a Paying Agent and/or a Transfer Agent having its Specified Office in the place required by such competent authority, stock exchange and/or quotation system.

Notice of any change in any of the Agents or in their Specified Offices shall promptly be given to the Noteholders.

18. **Meetings of Noteholders; Modification and Waiver**

(a) *Meetings of Noteholders*: The Agency Agreement contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of these Conditions. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Issuer and the Company and shall be convened upon the request in writing of Noteholders holding not less than 10 per cent. of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more Persons holding or representing one more than half of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, two or more Persons being or representing Noteholders whatever the principal amount of the Notes held or represented; provided, however, that Reserved Matters may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which two or more Persons holding or representing not less than 75 per cent.

or, at any adjourned meeting, 25 per cent. of the aggregate principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders and Couponholders, whether present or not.

In addition, the Agency Agreement provides that (i) consent given by way of electronic consents through the relevant Clearing System(s) by or on behalf of the holders of not less than three-quarters in aggregate principal amount of the Notes outstanding; and (ii) a resolution in writing signed by or on behalf of the holders of not less than 90 per cent. in aggregate principal amount of Notes outstanding, will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

(b) *Modification and waiver*: The Notes, these Conditions, the Deed of Guarantee and the Deed of Covenant may be amended without the consent of the Noteholders or the Couponholders to correct a manifest error.

In addition, the parties to the Agency Agreement may agree to modify any provision thereof, but the Issuer shall not agree, without the consent of the Noteholders, to any such modification unless it is of a formal, minor or technical nature, it is made to correct a manifest error or it is, in the opinion of such parties, not materially prejudicial to the interests of the Noteholders.

19. **Further Issues**

The Issuer may from time to time, without the consent of the Noteholders or the Couponholders, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the issue date, first payment of interest and if applicable, the timing for notification to the NDRC) so as to form a single series with the Notes.

20. **Notices**

(a) *Bearer Notes*: Notices to the Holders of Bearer Notes shall be valid if published in a leading English language daily newspaper published in Hong Kong or if such publication is not practicable, in a leading English language daily newspaper having general circulation in Asia. Any such notice shall be deemed to have been given on the date of first publication (or if required to be published in more than one newspaper, on the first date on which publication shall have been made in all the required newspapers). Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the Holders of Bearer Notes.

(b) *Registered Notes*: Notices to the Holders of Registered Notes shall be sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register. Any such notice shall be deemed to have been given on the fourth day after the date of mailing.

So long as the Notes are represented by a Global Note or a Global Note Certificate and such Global Note or Global Note Certificate is held on behalf of Euroclear or Clearstream, Luxembourg or the CMU Service, or any other clearing system, notices to the holders of Notes of that Series may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by the Terms and Conditions of the Notes. Any such notice shall be deemed to have been given to the holders of the Notes on the day on which the said notice was delivered to Euroclear or Clearstream, Luxembourg, the CMU Service and/or the alternative clearing system, as the case may be.

21. **Currency Indemnity**

If any sum due from the Issuer in respect of the Notes or the Coupons or any order or judgment given or made in relation thereto has to be converted from the currency (the "**first currency**") in which the same is payable under these Conditions or such order or judgment into another currency (the "**second currency**") for the purpose of (a) making or filing a claim or proof against the Issuer, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation to the Notes, the Issuer shall indemnify each Noteholder, on the written demand of such Noteholder addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Fiscal Agent, against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which such Noteholder may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

This indemnity constitutes a separate and independent obligation of the Issuer and shall give rise to a separate and independent cause of action.

22. **Rounding**

For the purposes of any calculations referred to in these Conditions (unless otherwise specified in these Conditions or the relevant Pricing Supplement), (a) all percentages resulting from such calculations will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with 0.000005 per cent. being rounded up to 0.00001 per cent.), (b) all United States dollar amounts used in or resulting from such calculations will be rounded to the nearest cent (with one half cent being rounded up), (c) all Japanese Yen amounts used in or resulting from such calculations will be rounded downwards to the next lower whole Japanese Yen amount, and (d) all amounts denominated in any other currency used in or resulting from such calculations will be rounded to the nearest two decimal places in such currency, with 0.005 being rounded upwards.

23. **Governing Law and Jurisdiction**

(a) *Governing law*: The Notes and any non-contractual obligations arising out of or in connection with the Notes are governed by English law.

(b) *Jurisdiction*: The courts of Hong Kong are to have exclusive jurisdiction to settle any disputes, claims, difference or controversy that may arise out of, in relation to or in connection with the Agency Agreement, the Notes, the Deed of Covenant or the Deed of Guarantee, including any dispute as to their existence, validity, interpretation, performance, breach or termination or the consequences of their nullity and any dispute relating to any non-contractual obligations arising out of or in connection with them (a "**Dispute**") and accordingly any legal action or proceedings arising out of or in connection with the Agency Agreement, the Notes, the Deed of Covenant or the Deed of Guarantee (the "**Proceedings**") may be brought in such courts.

Each of the Issuer, the Company, the Agents and any Noteholder in relation to any Dispute, submits to the exclusive jurisdiction of the courts of Hong Kong and waives any objection to Proceedings in such courts on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient or inappropriate forum to settle any Dispute.

(c) *Appointment of Process Agent*: The Issuer has, in the Agency Agreement, and the Guarantor has, in the Deed of Guarantee, irrevocably and unconditionally appointed the Company at 23/F Bank of China Tower, 1 Garden Road, Hong Kong as its agent for service of process in Hong Kong.

If for any reason the Company shall cease to be such agent for service of process, each of the Issuer and the Guarantor shall promptly appoint a new agent for service of process in Hong Kong and shall deliver to the Agents a copy of the new agent's acceptance of that appointment. Nothing in these Conditions shall affect the right to serve process in any other manner permitted by law.

(d) *Waiver of immunity*: To the extent that the Issuer may in any jurisdiction claim for itself or its assets or revenues immunity from suit, execution, attachment (whether in aid of execution, before judgment or otherwise) or other legal process and to the extent that such immunity (whether or not claimed) may be attributed in any such jurisdiction to the Issuer or its assets or revenues, the Issuer agrees not to claim and irrevocably waives such immunity to the full extent permitted by the laws of such jurisdiction.

(e) *Consent to enforcement, etc*: The Issuer irrevocably and generally consents in respect of any Proceedings anywhere to the giving of any relief or the issue and service on it of any process in connection with those Proceedings including, without limitation, the making, enforcement or execution against any assets whatsoever (irrespective of their use or intended use) of any order or judgment which may be made or given in those Proceedings.

FORM OF PRICING SUPPLEMENT

The Pricing Supplement in respect of each Tranche of Notes will be substantially in the following form, duly supplemented (if necessary), amended (if necessary) and completed to reflect the particular terms of the relevant Notes and their issue.

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

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

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

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

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

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

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

[**UK PRIIPs Regulation—Prohibition of sales to UK retail investors—**The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom (**UK**). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (**EUWA**); (ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the Financial Services and Markets Act 2000 (**FSMA**) to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA[●]/[; or] [(iii) not a qualified investor as defined in Article 2 of Regulation (EU) 2017/1129 as it forms part of domestic law by virtue of the EUWA]. Consequently no key information document required by Regulation (EU) No 1286/2014 as it forms part of domestic law by virtue of the EUWA (the **UK PRIIPs Regulation**) for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.][2]

Notification under Section 309B(1)(c) of the Securities and Futures Act (Chapter 289) of Singapore (the **SFA)—**[In connection with Section 309B of the SFA and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the **CMP Regulations 2018**), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are prescribed capital markets products (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).]/[*To insert appropriate notice if classification of the Notes is not "prescribed capital markets products", pursuant to Section 309B of the SFA or Excluded Investment Products"*.][3]

Pricing Supplement dated [●]

Amipeace Limited

Legal entity identifier (LEI): 549300Z8IOSIIKWF5763

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes] due [Maturity Year] under the HK$20,000,000,000 Medium Term Note Programme

The document constitutes the Pricing Supplement relating to the issue of Notes described herein.

[1] Legend to be included on front of the Pricing Supplement if the Notes potentially constitute "packaged" products and no key information document will be prepared or the Issuer wishes to prohibit offers to EEA retail investors for any other reason, in which case the selling restriction should be specified to be "Applicable".

[2] Legend to be included on the front of the Pricing Supplement if the Notes potentially constitute "packaged" products and no key information document will be prepared in the UK or the issuer wishes to prohibit offers to UK retail investors for any other reason, in which case the selling restriction should be specified to be "Applicable".

[3] Relevant Dealer(s) to consider whether it/they have received the necessary product classification from the Issuer prior to the launch of the offer, pursuant to Section 309B of the SFA. If there is a change as to product classification for the relevant drawdown, from the upfront classification embedded in the programme documentation, then the legend is to be completed accordingly.

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions of the Notes (the **Conditions**) set forth in the Offering Circular dated 19 October 2021. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with such Offering Circular dated 19 October 2021 [and the supplemental Offering Circular dated [*date*]].

[*The following alternative language applies if the first tranche of an issue which is being increased was issued under an Offering Circular with an earlier date.*

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions of the Notes (the **Conditions**) set forth in the Offering Circular dated [*original date*] [and the supplement to it dated [*date*]] which are incorporated by reference in the Offering Circular. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with the Offering Circular dated [*current date*], save in respect of the Conditions which are extracted from the Offering Circular dated [*original date*] and are attached hereto.]

[*Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or subparagraphs. Italics denote guidance for completing the Pricing Supplement.*]

[*If the Notes have a maturity of less than one year from the date of their issue, the minimum denomination may need to be £100,000 or its equivalent in any other currency.*]

1.	(a)	Issuer:	Amipeace Limited
	(b)	Company:	Bank of China Group Investment Limited
2.		Guarantor:	Bank of China Limited, Macau Branch (the **Guarantor**)
3.	[(a)	Series Number:]	[●]
	[(b)	Tranche Number:	[●]
		(*If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible*).]	
	[(c)	Date on which the Notes will be consolidated and form a single Series:	The Notes will be consolidated and form a single Series with [*identify earlier Tranches*] on [the Issue Date/the date that is 40 days after the Issue Date/exchange of the Temporary Global Note for interests in the Permanent Global Note, as referred to in paragraph [26] below, which is expected to occur on or about [*date*]][Not Applicable]
4.		Specified Currency or Currencies:	[●]
5.		Aggregate Nominal Amount:	[●]
	[(a)]	[Series]:	[●]
	[(b)	Tranche:	[●]
6.	(a)	Issue Price:	[●] per cent. of the Aggregate Nominal Amount [plus accrued interest from [insert date] (*in the case of fungible issues only, if applicable*)]
	(b)	Net Proceeds	[●] [(*Required only for listed issues*)]

7.	(a)	Specified Denominations (in the case of Registered Notes, this means the minimum integral amount in which transfers can be made):	[●] *(N.B. Notes must have a minimum denomination of €100,000 (or equivalent).)* *(N.B. Where Bearer multiple denominations above [€100,000] or equivalent are being used the following sample wording should be followed:* *"[€100,000] and integral multiples of [€1,000] in excess thereof up to and including [€199,000]. No Notes in definitive form will be issued with a denomination above [€199,000].")*
	(b)	Calculation Amount:	[●] *(If there is only one Specified Denomination, insert the Specified Denomination.* *If there is more than one Specified Denomination, insert the highest common factor. Note: There must be a common factor in the case of two or more Specified Denominations.)*
8.	(a)	Issue Date:	[●]
	(b)	Interest Commencement Date:	[*Specify*/Issue Date/Not Applicable] *(N.B. An Interest Commencement Date will not be relevant for certain Notes, for example Zero Coupon Notes.)*
9.	Maturity Date:		[*Specify date* [,subject to adjustment in accordance with *[specify relevant Business Day Convention*]] *or (for Floating Rate Notes)* Interest Payment Date falling in or nearest to [*the relevant month and year*]][4]
10.	Interest Basis:		[[●] per cent. Fixed Rate] [[*Specify* reference rate] +/– [●] per cent. Floating Rate] [Zero Coupon] [Index Linked Interest] [Other (*Specify*)] (further particulars specified below)
11.	Redemption/Payment Basis:		[Redemption at par] [Index Linked Redemption]

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

		[Dual Currency]
		[Partly Paid]
		[Instalment]
		[Other (*Specify*)]
12.	Change of Interest or Redemption/Payment Basis:	[*Specify details of any provision for convertibility of Notes into another interest or redemption/payment basis*]
13.	Put/Call Options:	[Investor Put]
		[Issuer Call]
		[(further particulars specified below)]
		[Not Applicable]
14.	Date of [Board] approval for issuance of Notes and Guarantee obtained:	[ ] [and [ ], respectively]
		(*N.B. Only relevant where Board (or similar) authorisation is required for the particular tranche of Notes or related Guarantee*)
15.	Listing:	[Hong Kong/Other (*specify*)/None] (For Notes to be listed on the [Hong Kong Stock Exchange], insert the expected effective listing date of the Notes)
16.	Method of distribution:	[Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

17.	**Fixed Rate Note Provisions**	[Applicable/Not Applicable]
		(*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(a) Rate[(s)] of Interest:	[●] per cent. per annum [payable [annually/semi-annually/quarterly/monthly/other (*specify*)] in arrear]
		(*If payable other than annually, consider amending Condition 6*)
	(b) Interest Payment Date(s):	[●] in each year [adjusted in accordance with *[specify Business Day Convention and any applicable Business Centre(s) for the definition of "Business Day"*]/not adjusted]
		(*N.B.: This will need to be amended in the case of long or short coupons*)

	(c)	Fixed Coupon Amount[(s)] for Notes in definitive form (and in relation to Notes in global form see Conditions):	[●] per Calculation Amount[5]
	(d)	Broken Amount(s) for Notes in definitive form (and in relation to Notes in global form see Conditions):	[●] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [●]
	(e)	Day Count Fraction:	[30/360/Actual/Actual (ICMA/ISDA)/Actual/365 (Fixed)[6] /other]
	(f)	Other terms relating to the method of calculating interest for Fixed Rate Notes:	[Not Applicable/*give details*]
18.	**Floating Rate Note Provisions**		[Applicable/Not Applicable] *(If not applicable, delete the remaining subparagraphs of this paragraph)*
	(a)	Interest Period(s):	[●]
	(b)	Specified Period:	[●][, subject to adjustment in accordance with the Business Day Convention set out in (e) below/, not subject to any adjustment, as the Business Day Convention in (e) below is specified to be Not Applicable] (*Specified Period and Specified Interest Payment Dates are alternatives. A Specified Period, rather than Specified Interest Payment Dates, will only be relevant if the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention Otherwise, insert "Not Applicable"*).
	(c)	Specified Interest Payment Dates:	[●][, subject to adjustment in accordance with the Business Day Convention set out in (e) below/, not subject to any adjustment, as the Business Day Convention in (e) below is specified to be Not Applicable] (*Specified Period and Specified Interest Payment Dates are alternatives. If the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention, insert "Not Applicable"*)
	(d)	First Interest Payment Date:	[●]
	(e)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other (*give details*)]

5 For Renminbi or Hong Kong dollar denominated Fixed Rate Notes where the Interest Payment Dates are subject to modification the following alternative wording is appropriate: "Each Fixed Coupon Amount shall be calculated by multiplying the product of the Rate of Interest and the Calculation Amount by the Day Count Fraction and rounding the resultant figure to the nearest CNY0.01, CNY0.005 for the case of Renminbi denominated Fixed Rate Notes to the nearest HK$0.01, HK$0.005 for the case of Hong Kong dollar denominated Fixed Rate Notes, being rounded upwards.

6 Applicable to Hong Kong dollar denominated Fixed Rate Notes and Renminbi denominated Fixed Rate Notes.

(f)	Additional Business Centre(s):	[Not Applicable/*give details*]
(g)	Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination/other (*give details*)]
(h)	Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the Fiscal Agent]):	[[*Name*] shall be the Calculation Agent]
(i)	Screen Rate Determination:	
•	Reference Rate:	[*For example, LIBOR or EURIBOR*]
•	Interest Determination Date(s):	[●] *(Second London business day prior to the start of each Interest Period if LIBOR (other than Sterling, Hong Kong dollar or euro LIBOR), first day of each Interest Period if Sterling LIBOR or Hong Kong dollar LIBOR or HIBOR, the second day on which the TARGET2 System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR, the second business day prior to the start of each Interest Period if SIBOR or SOR and the second Hong Kong business day prior to the start of each Interest Period if CNH HIBOR)*
•	Relevant Screen Page:	[*For example, Reuters LIBOR 01/EURIBOR 01*] *(In the case of EURIBOR, if not Reuters EURIBOR 01 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately)*
•	Relevant Time:	[*For example, 11 a.m. London time/Brussels time*]
•	Relevant Financial Centre:	[*For example, London/Euro-zone (where Euro-zone means the region comprised of the countries whose lawful currency is the euro*]
(j)	ISDA Determination:	
•	Floating Rate Option:	[●]
•	Designated Maturity:	[●]
•	Reset Date:	[●]
(k)	Margin(s):	[+/-][●] per cent. per annum
(l)	Minimum Rate of Interest:	[●] per cent. per annum
(m)	Maximum Rate of Interest:	[●] per cent. per annum
(n)	Day Count Fraction:	[●]

	(o)	Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions:	[●]
19.	**Zero Coupon Note Provisions**		[Applicable/Not Applicable] *(If not applicable, delete the remaining subparagraphs of this paragraph)*
	(a)	Accrual Yield:	[●] per cent. per annum
	(b)	Reference Price:	[●]
	(c)	Any other formula/basis of determining amount payable:	[*Consider whether it is necessary to specify a Day Count Fraction for the purposes of Condition [10(g)]*]
20.	**Index-Linked Interest Note/other variable-linked interest Note Provisions**		[Applicable/Not Applicable] *(If not applicable, delete the remaining subparagraphs of this paragraph)*
	(a)	Index/Formula/other variable:	[*give or annex details*]
	(b)	Calculation Agent responsible for calculating the interest due:	[●]
	(c)	Provisions for determining Coupon where calculated by reference to Index and/or Formula and/or other variable:	[●]
	(d)	Interest Determination Date(s):	[●]
	(e)	Provisions for determining Coupon where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted:	[●][*need to include a description of market disruption or settlement disruption events and adjustment provisions*]
	(f)	Interest or calculation period(s):	[●]
	(g)	Specified Period:	[●] (*Specified Period and Specified Interest Payment Dates are alternatives. A Specified Period, rather than Specified Interest Payment Dates, will only be relevant if the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention. Otherwise, insert "Not Applicable"*)

	(h)	Specified Interest Payment Dates:	[●]
			(*Specified Period and Specified Interest Payment Dates are alternatives. If the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention, insert "Not Applicable"*)
	(i)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other (*give details*)]
	(j)	Additional Business Centre(s):	[●]
	(k)	Minimum Rate/Amount of Interest:	[●] per cent. per annum
	(l)	Maximum Rate/Amount of Interest:	[●] per cent. per annum
	(m)	Day Count Fraction:	[●]
21.	**Dual Currency Note Provisions**		[Applicable/Not Applicable]
			(*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(a)	Rate of Exchange/method of calculating Rate of Exchange:	[*give details*]
	(b)	Calculation Agent, if any, responsible for calculating the principal and/or interest due:	[●]
	(c)	Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable:	[●][*need to include a description of market disruption or settlement disruption events and adjustment provisions*]
	(d)	Person at whose option Specified Currency(ies) is/are payable:	[●]

PROVISIONS RELATING TO REDEMPTION

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

	(d)	Notice period (if other than as set out in the Conditions):	[●] *(N.B. If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Fiscal Agent.)*
23.	**Put Option**		[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(a)	Optional Redemption Date(s):	
	(b)	Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s):	[●] per Calculation Amount/*specify other*/see Appendix
	(c)	Notice period (if other than as set out in the Conditions):	[●] *(N.B. If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Fiscal Agent.)*
24.	**Final Redemption Amount of each Note**		[●] per Calculation Amount
	In cases where the Final Redemption Amount is Index- Linked or other variable-linked:		
	(a)	Index/Formula/variable:	[*give or annex details*]
	(b)	Calculation Agent responsible for calculating the Final Redemption Amount:	[●]
	(c)	Provisions for determining Final Redemption Amount where calculated by reference to Index and/or Formula and/or other variable:	[●]
	(d)	Date for determining Final Redemption Amount where calculation by reference to Index and/or Formula and/or other variable:	[●]
	(e)	Provisions for determining Final Redemption Amount where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted:	[●]

	(f) [Payment Date]:	[●]
	(g) Minimum Final Redemption Amount:	[●] per Calculation Amount
	(h) Maximum Final Redemption Amount:	[●] per Calculation Amount
25.	**Early Redemption Amount**	Not Applicable
	Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons or an event of default or other early redemption and/or the method of calculating the same (if required or if different from that set out in the Conditions):	*(If each of the Early Redemption Amount (Tax) and the Early Termination Amount are the principal amount of the Notes/specify the Early Redemption Amount (Tax) and/or the Early Termination Amount if different from the principal amount of the Notes)*

GENERAL PROVISIONS APPLICABLE TO THE NOTES

26.	**Form of Notes:**	**Bearer Notes:** [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes on [●] days' notice/at any time/in the limited circumstances specified in the Permanent Global Note] [Temporary Global Note exchangeable for Definitive Notes on [●] days' notice][7] [Permanent Global Note exchangeable for Definitive Notes on [●] days' notice/at any time/ in the limited circumstances specified in the Permanent Global Note] **Registered Notes:** [Global Note Certificate exchangeable for Individual Note Certificates on [●] days' notice/ at any time/in the limited circumstances described in the Global Note Certificate]
27.	Additional Financial Centre(s) or other special provisions relating to payment dates:	[Not Applicable/*give details*. *Note that this paragraph relates to the date and place of payment, and not interest period end dates, to which sub paragraphs 18(f) and 20(j) relate*]
28.	Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature):	[Yes/No. If yes, *give details*]

[7] if the Specified Denominations of the Notes in paragraph 6 includes language substantially to the following effect: "[€100,000] and integral multiples of [€1,000] in excess thereof up to and including [€199,000]", the Temporary Global Note shall not be exchangeable on [●] days' notice.

29.	Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made [and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment]:	[Not Applicable/*give details*]
30.	Details relating to Instalment Notes: amount of each instalment, date on which each payment is to be made:	[Not Applicable/*give details*]
31.	Redenomination, renominalisation and reconventioning provisions:	[Not Applicable/The provisions annexed to this Pricing Supplement apply]
32.	Consolidation provisions:	The provisions in Condition 19 (Further Issues) [annexed to this Pricing Supplement] apply
33.	Any applicable currency disruption/fallback provisions:	[Not Applicable/*give details*]
34.	Other terms or special conditions:	[Not Applicable/*give details*]
35.	NDRC Post-Issue Filing	[Applicable/Not Applicable]

DISTRIBUTION

36.	(a) If syndicated, names of Managers:	[Not Applicable/*give names*]
	(b) Stabilisation Manager(s) (if any):	[Not Applicable/*give name*]
37.	(If non-syndicated, name and address of Dealer:	[Not Applicable/*give name and address*]
38.	Private Bank Rebate/Commission:	[*To be included if a PB rebate is paid: In addition, each of the Issuer and the Company has agreed with the Managers that each of the Issuer and the Company will pay a commission to certain private banks in connection with the distribution of the Notes to their clients. This commission will be based on the principal amount of the Notes so distributed, and may be deducted from the purchase price for the Notes payable by such private banks upon settlement*.] / [Not Applicable]
39.	Total commission and concession:	[●] per cent. of the Aggregate Nominal Amount
40.	U.S. Selling Restrictions:	Reg. S Category [1/2]; (*In the case of Bearer Notes*)—[TEFRA C/ TEFRA D/TEFRA not applicable] (*In the case of Registered Notes*)—Not Applicable
41.	Additional selling restrictions:	[Not Applicable/*give details*]

42.	Prohibition of Sales to EEA Retail Investors	[Applicable/Not Applicable] *(If the Notes clearly do not constitute "packaged" products or the Notes do constitute "packaged" products and a key information document will be prepared in the EEA, "Not Applicable" should be specified. If the Notes may constitute "packaged" products and no key information document will be prepared, "Applicable" should be specified.)*
43.	Prohibition of Sales to UK Retail Investors:	[Applicable/Not Applicable] (*If Notes clearly do not constitute "packaged" products or the Notes do constitute "packaged" products and a key information document will be prepared in the UK, "Not Applicable" should be specified. If the Notes may constitute "packaged" products and no key information document will be prepared, "Applicable" should be specified.*)

OPERATIONAL INFORMATION

44.	ISIN Code:	[●]
45.	Common Code:	[●]
46.	CMU Instrument Number	[●]
47.	Any clearing system(s) other than Euroclear/ Luxembourg and the CMU Service and the relevant identification number(s):	[Not Applicable/*give name(s) and number(s)*]
48.	Delivery:	Delivery [against/free of] payment
49.	Additional Paying Agent(s) (if any):	[●]

GENERAL

50.	The aggregate principal amount of Notes issued has been translated into Hong Kong dollars at the rate of [●], producing a sum of (for Notes not denominated in Hong Kong dollars):	[Not Applicable/HK$]
51.	[Ratings:	The Notes to be issued have been rated: [S&P:[●]]; [Moody's: [●]]; [and] [Fitch:[●]] (each a **Rating Agency**). If any Rating Agency shall not make a rating of the Notes publicly available, the Issuer and the Company shall select and substitute them with [●] or [●] and its successors.]

[USE OF PROCEEDS

Give details if different from the "Use of Proceeds" section in the Offering Circular.]

STABILISATION

In connection with this issue, [*insert name of Stabilisation Manager*] (the **Stabilisation Manager**) (or persons acting on behalf of any Stabilisation Manager) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilisation Manager (or persons acting on behalf of a Stabilisation Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilisation Manager (or persons acting on behalf of any Stabilisation Manager) in accordance with all applicable laws and rules.]

PURPOSE OF PRICING SUPPLEMENT

This Pricing Supplement comprises the final terms required for issue and admission to trading on the Hong Kong Stock Exchange of the Notes described herein pursuant to the HK$20,000,000,000 Medium Term Note Programme.

RESPONSIBILITY

The Issuer and the Company accept responsibility for the information contained in this Pricing Supplement.

Signed on behalf of Amipeace Limited:

By: ____________________________________

Duly authorised

Signed on behalf of Bank of China Group Investment Limited:

By: ____________________________________

Duly authorised

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

Clearing System Accountholders

In relation to any Tranche of Notes represented by a Global Note in bearer form, references in the Terms and Conditions of the Notes to "Noteholder" are references to the bearer of the relevant Global Note which, for so long as the Global Note is held by a depositary or a common depositary for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, and/or a sub-custodian for the CMU Service, will be that depositary, common depositary or sub-custodian, as the case may be.

In relation to any Tranche of Notes represented by a Global Certificate, references in the Terms and Conditions of the Notes to "Noteholder" are references to the person in whose name such Global Certificate is for the time being registered in the Register which, for so long as the Global Certificate is held by or on behalf of a depositary or a common depositary for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, and/or a sub-custodian for the CMU Service, will be such depositary or common depositary, or a nominee for such depositary or common depositary, or such sub-custodian, as the case may be.

Each of the persons shown in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system as being entitled to an interest in a Global Note or a Global Certificate (each an "Accountholder") must look solely to Euroclear and/or Clearstream, Luxembourg and/or such other relevant clearing system (as the case may be) for such Accountholder's share of each payment made by the Issuer to the holder of such Global Note or Global Certificate and in relation to all other rights arising under such Global Note or Global Certificate. The extent to which, and the manner in which, Accountholders may exercise any rights arising under the Global Note or Global Certificate will be determined by the respective rules and procedures of Euroclear and Clearstream, Luxembourg and any other relevant clearing system from time to time. For so long as the relevant Notes are represented by a Global Note or Global Certificate, Accountholders shall have no claim directly against the Issuer in respect of payments due under the Notes and such obligations of the Issuer will be discharged by payment to the holder of such Global Note or Global Certificate.

If a Global Note or a Global Certificate is lodged with a sub custodian for or registered with the CMU Service, the person(s) for whose account(s) interests in such Global Note or Global Certificate are credited as being held with the CMU Service in accordance with the CMU Rules. Each of the persons shown in the records of the CMU Service, as the beneficial holder of a particular nominal amount of Notes represented by such Global Note or Global Certificate must look solely to the CMU Lodging and Paying Agent for his share of each payment so made by the Issuer in respect of such Global Note or Global Certificate.

Conditions applicable to Global Notes

Each Global Note and Global Certificate will contain provisions which modify the Terms and Conditions of the Notes as they apply to the Global Note or Global Certificate. The following is a summary of certain of those provisions:

Payments: All payments in respect of the Global Note or Global Certificate which, according to the Terms and Conditions of the Notes, require presentation and/or surrender of a Note, Note Certificate or Coupon will be made against presentation and (in the case of payment of principal in full with all interest accrued thereon) surrender of the Global Note or Global Certificate to or to the order of any Paying Agent and will be effective to satisfy and discharge the corresponding liabilities of the Issuer in respect of the Notes. On each occasion on which a payment of principal or interest is made in respect of the Global Note, the Issuer shall procure that the payment is noted in a schedule thereto.

Payment Business Day: In the case of a Global Note, or a Global Certificate, shall be, if the currency of payment is euro, any day which is a TARGET Settlement Day and a day on which dealings in foreign currencies may be carried on in each (if any) Additional Financial Centre; or, if the currency of payment is not euro, any day which is a day on which dealings in foreign currencies may be carried on in the Principal Financial Centre of the currency of payment and in each (if any) Additional Financial Centre.

Payment Record Date: Each payment in respect of a Global Certificate will be made to the person shown as the holder in the Register at the close of business (in the relevant clearing system) on the Clearing System Business Day before the due date for such payment (the "Record Date") where "Clearing System Business Day" means a weekday (Monday to Friday, inclusive) except 25 December and 1 January.

Exercise of put option: In order to exercise the option contained in Condition 10(e) (*Redemption at the option of Noteholders*) the bearer of the Temporary Global Note or Permanent Global Note or the holder of a Global Certificate must, within the period specified in the Terms and Conditions of the Notes for the deposit of the relevant Note and put notice, give written notice of such exercise to the Fiscal Agent specifying the principal amount of Notes in respect of which such option is being exercised. Any such notice will be irrevocable and may not be withdrawn.

Partial exercise of call option: In connection with an exercise of the option contained in Condition 10(c) (*Redemption at the option of the Issuer*) in relation to some only of the Notes where such Notes are held with Euroclear and/or Clearstream, Luxembourg, the Temporary Global Note or Permanent Global Note or Global Certificate may be redeemed in part in the principal amount specified by the Issuer in accordance with the Terms and Conditions of the Notes and the Notes to be redeemed will not be selected as provided in the Terms and Conditions of the Notes but in accordance with the rules and procedures of Euroclear and Clearstream, Luxembourg (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in principal amount, at their discretion).

Notices: Notwithstanding Condition 20 (*Notices*), while all the Notes are represented by a Permanent Global Note (or by a Permanent Global Note and/or a Temporary Global Note) or a Global Certificate and the Permanent Global Note is (or the Permanent Global Note and/or the Temporary Global Note are), or the Global Certificate is, deposited with a depositary or a common depositary for Euroclear and/or Clearstream, Luxembourg or held on behalf of the CMU Service and/or any other relevant clearing system, notices to Noteholders may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg and/or the CMU Service and/or any other relevant clearing system and, in any case, such notices shall be deemed to have been given to the Noteholders in accordance with Condition 20 (*Notices*) on the date of delivery to Euroclear and/or Clearstream, Luxembourg and/or the CMU Service and/or any other relevant clearing system.

CAPITALISATION AND INDEBTEDNESS

Capitalisation and Indebtedness of the Bank

The following table sets forth the Group's unaudited but reviewed consolidated debt and capitalisation as at 30 June 2021. Please read this table in conjunction with the Group's unaudited condensed consolidated interim financial information as at and for the six months ended 30 June 2021 which have been included elsewhere into this Offering Circular.

	As at 30 June 2021
	(Unaudited but reviewed) (RMB million)
Debt[(1)]	
Bonds issued	1,301,561
Other borrowings	24,264
Total debt	1,325,825
Equity	
Capital and reserves attributable to equity holders of the Bank	
Share capital	294,388
Other equity instruments	299,510
Capital reserve	136,178
Treasury shares	(51)
Other comprehensive income	1,810
Statutory reserves	193,667
General and regulatory reserves	269,280
Undistributed profits	910,565
	2,105,347
Non-controlling interests	**125,001**
Total equity	**2,230,348**
Total equity and liabilities	**26,317,327**

Note:

(1) In addition, as at 30 June 2021, the Group had borrowings from central banks, deposits and money market deposits from customers and other banks, certificates of deposits, securities sold under repurchase agreements, credit commitments, acceptances, issued letters of guarantee and letters of credit, financial lease commitments and other commitments and contingencies, including outstanding litigation, that arise from its ordinary course of business.

As at 30 June 2021, the registered capital of the Bank was RMB294,387,791,241 divided into 294,387,791,241 ordinary shares of RMB1.00 par value each, all of which had been issued and were fully paid-up, including 210,765,514,846 A Shares and 83,622,276,395 H Shares.

From time to time, the Bank and/or its various offshore branches may issue debt or other regulatory capital securities in various currencies and tenor depending on market conditions.

Except as disclosed in this Offering Circular, there has been no material adverse change in the capitalisation and indebtedness of the Group since 30 June 2021.

Capitalisation and Indebtedness of the Issuer

As at the date of this Offering Circular, the Issuer was authorised to issue a maximum of 50,000 shares of one class of no par value, of which one share is held by the Company. As at the date of this Offering Circular, the Issuer does not have any debt outstanding other than the U.S.$600,000,000 2.50 per cent. Guaranteed Notes due 5 December 2024 which was issued by the Issuer on 5 December 2019, the U.S.$400,000,000 1.50 per cent. Notes due 22 October 2025 issued by the Issuer on 22 October 2020, and the U.S.$500,000,000 2.25 per cent. Notes due 22 October 2030 issued on 22 October 2020.

Under British Virgin Islands law, the Issuer is not required to publish interim or annual financial statements. The Issuer has not publicly published, and does not propose to publicly publish, any financial statements in the future.

DESCRIPTION OF THE BANK

Overview

The Group is one of the largest state-owned commercial banks in the PRC, which owns a comprehensive financial service platform. Besides the commercial banking business which includes corporate banking, personal banking and financial market business, the Group also operates an investment banking business through BOC International Holdings Limited ("**BOC International**") and BOC International (China) Company Limited ("**BOCI China**"), an insurance business through Bank of China Group Insurance Company Limited ("**BOCG Insurance**"), BOC Group Life Assurance Company Limited ("**BOC Life**") and Bank of China Insurance Company Limited ("**BOC Insurance**"), a fund management business through Bank of China Investment Management Co., Ltd. ("**BOCIM**"), direct investment and investment management business through the Bank of China Group Investment Limited ("**BOCG Investment**"), an asset management business through BOC Wealth Management Co., Ltd. ("**BOC Wealth Management**"), a financial leasing, transfer and receiving of financial leasing assets business through BOC Financial Leasing Co., Ltd. ("**BOCL**"), and debt-for-equity conversion and related business in the Chinese Mainland through BOC Financial Asset Investment Co., Ltd. ("**BOC Asset Investment**"). In 2006, after successfully acquiring Singapore Aircraft Leasing Enterprise, a leading company in such business in Asia, the Group changed the acquired company's name to BOC Aviation Pte. Ltd. and became the first Chinese bank to enter the global aircraft leasing business. In connection with the global offering and the listing of its shares on the Hong Kong Stock Exchange, on 12 May 2016, BOC Aviation Pte. Ltd. was converted to a public company limited by shares and the name was changed to BOC Aviation Limited ("**BOC Aviation**"), which took effect on 19 May 2016. The combination of these businesses has created a universal banking platform that provides the Bank with the ability to offer a broad range of financial products and services and enables it to establish stronger relationships with strategically targeted customers and strengthen customer loyalty.

Established in 1912, the Bank is one of the best-known commercial banks in the PRC. During its more than 100 years of history, the Bank has built one of the most recognised brand names in the PRC through its contributions to the evolution of the PRC commercial banking industry. The Bank has many significant achievements in the PRC commercial banking sector. For example, in 1929, the Bank was the first PRC commercial bank to establish a foreign branch with the opening of its London branch. In addition, in 1985, the Bank offered the first bank card in the PRC. In 1994 and 1995, the Bank's Hong Kong subsidiary and Macau branch became bank note issuing banks in Hong Kong and Macau, respectively. Furthermore, in 1998, the Bank arranged the first U.S. dollar-denominated syndicated loan for a PRC bank as the lead manager and agent. In 2002, BOC Hong Kong (Holdings) Limited was listed on the Hong Kong Stock Exchange after a special restructuring of 12 banks in Hong Kong. The Bank was the sponsor of the 2008 Olympic Games held in Beijing and is the official commercial banking partner of the 2022 Beijing Olympic and Paralympic Winter Games. The Bank was converted into a joint stock company in the PRC in 2004. In 2006, the Bank became listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange. The Bank celebrated its 100th year anniversary in 2012.

On 4 November 2011, the Bank was included by the Financial Stability Board, an international organisation for financial supervision and consultation, in the list of the 29 global systemically important financial institutions, among which the Bank was the only bank from China and emerging economy countries and regions. From 2011 to 2020, the Bank was listed and designated each year as a global systemically important financial institution, making it the sole financial institution from emerging economies to be listed and designated as such for ten consecutive years.

As at 30 June 2021, the Group's NPLs totalled RMB200.348 billion, representing a decrease of RMB6.925 billion compared with the prior year-end. The NPL ratio was 1.30 per cent., down 0.16 percentage point compared with the prior year-end. The Group's allowance for loan impairment losses on loans and advances (including allowance for loans at amortised cost and allowance for loans at fair value through other comprehensive income) amounted to RMB369.168 billion, an increase of RMB0.549 billion compared with the prior year-end. The coverage ratio of allowance for loan impairment losses to NPLs was 184.26 per cent.

For the six months ended 30 June 2021, the Group recorded a profit for the period of RMB118.547 billion, an increase of 9.96 per cent. compared with the six months ended 30 June 2020. It realised a profit attributable to equity holders of the Bank of RMB112.813 billion, an increase of 11.79 per cent. compared with the six months ended 30 June 2020.

As at 30 June 2021, the Group's total loans and advances to customers amounted to RMB15,416.400 billion, an increase of RMB1,199.923 billion or 8.44 per cent. compared with the prior year-end. Specifically, the Group's RMB loans and advances to customers totalled RMB12,282.921 billion, an increase of RMB943.931 billion or 8.32 per cent. compared with the prior year-end, while its foreign currency loans amounted to USD485.051 billion, an increase of USD44.050 billion or 9.99 per cent. compared with the prior year-end. As at 30 June 2021, the Group's common equity tier 1 capital adequacy ratio, tier 1 capital adequacy ratio and capital adequacy ratio stood at 10.80 per cent., 12.72 per cent. and 15.61 per cent., respectively, calculated according to the advanced approach under the CBIRC Capital Regulations.

The Bank's Strengths

The Bank's principal strengths include:

Well-Recognised Brand Name

The Bank is one of the most well-known commercial banks in the PRC. In the Bank's over 100 years history, the Bank has successfully built one of the most recognised brand names in the PRC through its contributions to the evolution of the PRC commercial banking industry.

Largest and Rationally Distributed Overseas Network Complementing an Extensive Domestic Network

As at 30 June 2021, the Bank had a total of 11,519 institutions worldwide, including 10,963 institutions in the Chinese Mainland and 556 institutions in Hong Kong, Macau, Taiwan and other countries and regions. Its commercial banking business in the Chinese Mainland comprised 10,450 institutions, including 38 tier-1 and direct branches, 370 tier-2 branches and 10,041 outlets.

The Bank's extensive domestic and overseas network enables it to structure and deliver products and services to serve its customers on a global basis and allows it to capture the business opportunities arising from the increasing integration of the PRC into the global economy.

Solid Customer Base and Strong Presence in Attractive Customer Segments

In the PRC, foreign exchange services tend to be utilised by large corporate customers and affluent individuals. Capitalising on the Bank's position as one of the most experienced foreign exchange banks in the PRC and its extensive global network, the Bank has established and continued to maintain strong relationships with leading domestic and international corporations and financial institutions. The Bank also has a strong presence in the retail customer segment.

Universal Banking Platform

In addition to commercial banking, the Bank provides investment banking, insurance and other services through the Bank's wholly-owned subsidiaries, namely, BOC Wealth Management, BOC Asset Investment, BOC International, BOCG Insurance, BOC Insurance, BOCG Investment and BOC Aviation and through the Bank's subsidiaries such as BOCL, BOC Life and BOCIM.

The Bank fully utilises the advantages in its diversified business platform and its subsidiaries embrace the Group's overall strategy to focus on their specialised business areas, establish business linkage, promote cross-selling and product innovation to enhance the synergy across the Group and provide comprehensive and quality financial services to the customers.

Leader in Non-Interest Income and Treasury Businesses with Strong Product Innovation Capabilities

The Bank believes its diversified products and innovation capabilities have enabled it to generate a higher level of non-interest income, thus reducing its reliance on its traditional lending business. The Group's operating income comprises net interest income and non-interest income. In recent years, the Bank has further built upon its strengths in the trade finance business and co-ordinated the development of traditional businesses such as international settlement and issuance of letters of guarantee, and emerging businesses, such as cross-border Renminbi business and supply chain financing. The Bank has also experienced a steady growth in revenue from the letter of credit, letters of guarantee, factoring and trade finance-related businesses. In addition, the accelerated development of the domestic settlement business has promoted the income growth of settlement and clearing businesses. The Bank has also further developed its insurance agency and pension businesses, which resulted in a substantial increase in income related to agency commission fees. For clearing services, the Bank continuously improved its cross-border Renminbi clearing capabilities and further consolidated its position at the leading edge of international payments. After holding an opening ceremony on 17 April 2019, the Bank's Tokyo Branch formally commenced business as the Renminbi clearing bank in Japan. The Bank also received authorisation to serve as the Renminbi clearing bank in the Philippines, which means that it now accounts for 13 of the world's 27 authorised Renminbi clearing banks and continues to lead its peers. It also ranked first in terms of the number of the Cross-border Inter-bank Payment System (the "**CIPS**") indirect participants. In the first half of 2021, the Group's cross-border RMB clearing transactions totalled RMB311 trillion, up by more than 35 per cent. compared with the same period of the prior year, maintaining the leading place in global markets. The Bank's global markets department offers a broad range of treasury products and services for different customer groups, as well as conducts settlement and related quotation, and 24-hour daily treasury activities through its five trading centres located in Hong Kong, London, New York, Beijing and Shanghai.

The Bank believes its ability to offer innovative financial solutions to its customers, which provides it with a competitive advantage over other PRC commercial banks.

Experienced Senior Management Team

The Bank's senior management team has extensive experience in the banking and financial services. The Bank's Chairman, Mr. Liu Liange, has served as Chairman of the board of directors of the Bank (the "**Board of Directors**") since July 2019. Mr. Liu joined the Bank in 2018. He served as Vice Chairman of the Board of Directors from October 2018 to July 2019 and President of the Bank from August 2018 to June 2019. Mr. Liu served as Vice Chairman and President of the Export-Import Bank of China from July 2015 to June 2018. Mr. Liu served as Vice President of the Export-Import Bank of China from March 2007 to February 2015. He also served as Director of the African Export-Import Bank from September 2007 to February 2015, Chairman of the Board of Supervisors of Sino-Italian Mandarin Capital Partners from March 2009 to June 2015, and Chairman of the Board of Directors of Regional Credit Guarantee and Investment Facility (Asia) from March 2014 to May 2015. Mr. Liu worked in PBOC for many years, successively serving as Deputy Director – General of the International Department of PBOC, President of the Fuzhou Central Sub-branch of PBOC and Director of the Fujian Branch of SAFE, Director General of the Anti-Money Laundering Bureau (the Security Bureau) of PBOC. Mr. Liu has been serving as President of Shanghai RMB Trading Unit since October 2018. He served as Vice Chairman of the board of directors of BOC Hong Kong (Holdings) Limited from December 2018 to July 2019 and has been serving as Chairman of the board of directors of BOC Hong Kong (Holdings) Limited since July 2019.

Principal Business Activities

The Group's principal lines of business consist of commercial banking, investment banking and insurance. The following table sets forth the profit before income tax by the Group's principal lines of business for the periods indicated:

Profit before Income Tax by Business Lines

	For the six months ended 30 June				For the year ended 31 December					
	2021		2020		2020		2019		2018	
	Amount	per cent. of total Amount	Amount	per cent. of total Amount	Amount	per cent. of total Amount	Amount	per cent. of total Amount	Amount	per cent. of total Amount
	(RMB million, except percentages)									
Corporate banking business	36,351	24.51	42,005	32.40	74,404	30.20	72,872	29.07	63,507	27.66
Personal banking business	64,364	43.40	60,153	46.41	113,601	46.11	93,087	37.14	93,360	40.65
Treasury operations	36,157	24.38	19,702	15.20	42,218	17.14	69,611	27.77	58,658	25.54
Investment banking and insurance	3,108	2.10	2,366	1.83	5,032	2.04	3,788	1.51	3,326	1.45
Others and elimination	8,322	5.61	5,390	4.16	11,123	4.51	11,287	4.51	10,792	4.70
Total	148,302	100.00	129,616	100.00	246,378	100.00	250,645	100.00	229,643	100.00

The Group conducts its business activities in the Chinese Mainland as well as 61 countries and regions. The following table sets forth a geographical breakdown of the profit before income tax of the Group for the periods indicated:

	For the six months ended		For the year ended 31 December		
	2021	2020	2020	2019	2018
	(RMB million)				
Chinese Mainland	118,328	97,194	188,740	178,338	162,224
Hong Kong, Macau and Taiwan	24,819	27,960	50,250	56,843	51,004
Other countries and regions	5,095	4,443	7,388	15,765	17,302
Elimination	60	19	–	(301)	(887)
Total	148,302	129,616	246,378	250,645	229,643

Commercial Banking in the Chinese Mainland

Focused on the three main tasks of serving the real economy, preventing financial risks, and deepening financial reform, the Bank adhered to the general principle of pursuing progress while ensuring stability and strengthened the implementation of its development strategies, thus achieving moderate growth across all businesses and the overall operating profit maintained its steady progress.

For the six months ended 30 June 2021, the commercial banking business in the Chinese Mainland achieved an operating income of RMB233.218 billion, an increase in RMB16.245 billion or 7.49 per cent. compared with the six months ended 30 June 2020.

Corporate Banking

With a focus on high-quality development, the Bank continued to advance the transformation of its corporate financial services so as to serve the real economy more efficiently and effectively. It gave priority to supporting high-quality development in key areas such as inclusive finance, green finance, strategic emerging industries and manufacturing, thus contributing to the transformation and upgrading of the national economy. It also proactively expanded core customer groups in the advanced manufacturing and digital economy-related industries, so as to help improve the country's strategic scientific and technological strengths. In addition, the Bank accelerated progress in the coordinated development of the Beijing-Tianjin-Hebei region, Xiongan New Area, the Yangtze River Delta, the Guangdong-Hong Kong-Macao Greater Bay Area, Hainan Free Trade Port and other key areas by virtue of its financial resources, thus supporting national strategies for coordinated regional development. It pushed forward RMB internationalisation in an orderly manner, serving as the main channel for cross-border RMB circulation and as a leader in RMB service innovation, thereby contributing to the country's opening-up strategy. The Bank further advanced product innovation, constantly optimised system functions, and strived to improve the service quality and efficiency of enterprise annuities, occupational annuities, employee benefit plans and pension security management, thus supporting the construction of the country's social security system. In the first half of 2021, the Group's corporate banking business in the Chinese mainland recorded an operating income of RMB91.574 billion, a decrease of RMB6.150 billion or 6.29% compared with the same period of the prior year.

Corporate Deposits

Upholding the customer-centric approach, the Bank remained committed to building a comprehensive and tiered marketing management system through scientific classification and targeted policy implementation, and continued to consolidate its development foundations. Focusing on customers' diversified financial needs, the Bank further enhanced its cross-industry services, marketing awareness and comprehensive service capability, and expanded the scale of customers' financial assets. Furthermore, by proactively integrating into the nation's new development pattern, in which domestic and international circulations reinforce each other, the Bank strived to connect its business product channels for domestic settlement and international settlement, increase business volumes in payments and settlements, enhance fund retention capacity, and boost the sound and sustainable development of its deposit business. In particular, the Bank highlighted the strategic positioning of its administrative institution business, accelerated the building of a smart government services ecosystem, and facilitated the digital transformation and IT application of administrative institutions. It also leveraged the role of administrative institutions as a platform to connect government agencies, cover customers across different industries and attract private customer groups, thus continuously expanding the sources of its deposits. Centring on the key industries and key customer groups of the administrative institutions sector, the Bank developed differentiated marketing strategies and sharpened its market competitiveness in key areas by concentrating on scenario-based marketing across the entire industrial chain of education, medical care and other industries. As at 30 June 2021, RMB corporate deposits of the Group's commercial banking business in the Chinese mainland totalled RMB6,790.604 billion, an increase of RMB337.116 billion or 5.22% compared with the prior year-end. Foreign currency corporate deposits amounted to USD109.638 billion, an increase of USD23.661 billion or 27.52% compared with the prior year-end.

Corporate Loans

The Bank proactively carried out its responsibilities, fully implemented the national development strategy, and effectively improved its services to the real economy. It increased investment in high-quality credit so as to support the real economy recovery steadily. Moreover, the Bank devoted itself to the development of the modern industrial system and actively promoted a shift in service focus from traditional industries to new industries, new business forms and new business models. It endeavoured to promote the nation's coordinated regional development strategy, supporting industrial upgrading and transfer as well as the development of city clusters in the Beijing-Tianjin-Hebei region and Xiongan New Area. The Bank also increased its investment in the advanced manufacturing sector, high-quality service sector, new infrastructure construction, new urbanisation and other sectors in the Yangtze River Delta, and vigorously seized the opportunities arising from the technology finance, industry finance and cross-border finance sectors in the Guangdong-Hong Kong-Macao Greater Bay Area. The Bank adopted policies tailored to local conditions and pursued accelerated development in the ecological protection of the Yellow River basin, the development of modern agriculture and animal husbandry, new urbanisation, infrastructure connectivity, and the upgrading and transformation of traditional industries. It further stepped up its efforts in promoting financial connectivity in the Chengdu-Chongqing economic circle, and energetically bolstered new forms of consumption. In addition, the Bank contributed to the building of the Hainan Free Trade Port and Smart Hainan, and positioned itself as the first-choice bank for the Hainan Free Trade Port.

To serve the national strategy of expanding domestic demand, it capitalised on the new trend of consumption upgrading, sped up the building of scenario ecosystems, thus strengthening support for consumption. To serve common prosperity for all, the Bank continuously strengthened inclusive financial services and made breakthroughs in online products. It also increased support for agricultural modernisation by actively integrating into the rural revitalisation strategy. To serve the nation's ecological conservation strategy, it further boosted the development of green finance, improved relevant products and services, and facilitated sustainable economic and social development, which in turn helped the Bank to build a green finance brand image. The Bank contributed to the high-standard opening-up of the Chinese economy, continuously bolstered financial service innovation for the Belt and Road Initiative, and enhanced its comprehensive services for "Going Global" and "Bringing In" customers. As at 30 June 2021, the RMB corporate loans of the Group's commercial banking business in the Chinese Mainland totalled RMB6,829.957 billion, an increase of RMB573.685 billion or 9.17% compared with the prior year-end, and foreign currency corporate loans totalled USD46.629 billion, an increase of USD7.456 billion or 19.03% compared with the prior year-end.

Financial Institutions Business

The Bank continued to deepen all-round cooperation with various financial institutions and built up its integrated financial services platform, maintaining a leading position in terms of financial institution customer coverage. It has maintained correspondent relationships with approximately 1,200 institutions around the world and opened 1,410 cross-border RMB clearing accounts for correspondent banks from 116 countries and regions, thus securing a leading position among domestic banks. It promoted the RMB Cross-Border Interbank Payment System (CIPS) and signed cooperation agreements for indirect participant relationships with 391 domestic and overseas financial institutions, seizing the largest market share among peers. The Bank's custodian service for Qualified Foreign Institutional Investors (QFII) and RMB Qualified Foreign Institutional Investors (RQFII) and its agency service for overseas central banks and other sovereign institutions all held leading positions in the industry in terms of both customer base and business scale. The Bank helped the Shanghai Headquarters of China Central Depository & Clearing Co., Ltd. (CCDC) to transfer the proceeds from the first offshore bond issuance by an overseas institution in the pilot free trade zone, and successfully bid to become a clearing fund depositing bank of the Shanghai Commercial Paper Exchange. It was also granted the qualifications to become the settlement bank for agency instruction receiving and sending business in relation to foreign currency lending for the China Foreign Exchange Trade System, as well as the exclusive settlement bank for the bilateral centralised clearing of RMB-USD trades via Shanghai Clearing House, thus enhancing its image as a co-brand in the financial factors market. The Bank also strengthened cooperation with the Asian Infrastructure Investment Bank ("**AIIB**"), New Development Bank and Silk Road Fund. It assisted AIIB with the issuance of several overseas USD bonds, served as lead underwriter for the New Development Bank's issuance of its first Panda bond to be linked to the Sustainable Development Goals, and acted as lead underwriter and lead bookrunner on the issuance of Asian Development Bank's Panda bond. As at 30 June 2021, the Bank had the largest market share in foreign currency deposits from financial institutions, and further increased its market share in terms of third-party funds under custody.

Transaction Banking Business

Actively adapting to the trend of FinTech innovation and the integrated financial needs of customers, the Bank vigorously developed its transaction banking business. It continued to strengthen financial support for the policy imperative of "ensuring stable foreign trade" and maintained the leading market share in international trade and cross-border RMB transaction volumes. The Bank became a global strategic partner of the first China International Consumer Products Expo ("**CICPE**") and fully supported the smooth operation of the first CICPE and the 129th China Import and Export Fair ("**Canton Fair**"). It proactively participated in the Belt and Road Initiative, RMB internationalisation and the building of pilot free trade zones and free trade ports. BOC Guangdong Branch successfully provided financial services under Free Trade Unit (FTU), following similar authorisations for the Bank's Shanghai, Hainan and Tianjin Branches. In addition, the Bank actively promoted the digital, scenario-based and intelligent development of supply chain finance and issued the *Measures of Bank of China on Innovating Supply Chain Financial Service Modes and Fully Supporting the Improvement on the Modernisation of Industrial Chains and Supply Chains*. It strengthened the development of application scenarios for transaction banking; enhanced service standards for account, payment and collection; and rolled out innovative intelligent cash management products to provide customers with multi-scenario fund supervision solutions (featuring ex-ante, in-event and ex-post integration), with the aim of improving its global cash management service capabilities.

Inclusive Finance

The Bank conscientiously implemented national policies and regulatory requirements regarding the nation's support for the micro and small-sized business. It also focused on serving the real economy and took multiple measures to support the development of micro and small-sized business. It continued to launch new online financing products and services such as the "Unsecured Loan", "Tax Loan" and "Mortgage Loan", and made efforts to upgrade online products, thus continuously improving its service capabilities for inclusive finance. To implement the requirements of pandemic containment policy, it launched the "New Year Benefit" financial service programme to provide financial services to those micro and small-sized enterprises, and their employees, that continued working to ensure supply and stabilise production, with more than 7,500 customers benefitting from the service. The Bank continued to provide support by deferring the repayment of principal and interest on loans to micro and small-sized enterprises and spared no efforts to relieve them from financial troubles. It also implemented the "BOC Inclusive Services for Specialised, Refined, Featured and Innovative Enterprises", and provided credit support for more than 10,000 such enterprises. In addition, the Bank worked with the State Intellectual Property Office to establish the Innovative Intellectual Property Financing Laboratory and released the "Inclusive Loan for Intellectual Property" inclusive financial service plan for intellectual property. It improved the BOC E-cooperation matchmaking platform, established a comprehensive "online + offline" matchmaking service system, and built new channels for attracting businesses, investments and talents. As at 30 June 2021, the Bank's outstanding inclusive finance loans granted to micro and small-sized enterprises[1] reached RMB781.6 billion, an increase of 35.8% compared with the prior year-end, outpacing the growth rate of the Bank's total loans. The number of micro and small-sized business customers stood at nearly 570,000, higher than that of the beginning of the year. The average interest rate of new inclusive finance loans granted to micro and small-sized enterprises in the first half of 2021 was 3.94%. By strengthening risk control and operational compliance, the quality of loans granted to micro and small-sized enterprises remained stable and manageable.

Pension Business

Taking the strategic national response to population ageing during the 14th Five-Year Plan period as its overarching principle, the Bank pressed ahead with the development of its pension business, promoted product innovation and system development, and provided a range of products including enterprise annuities, occupational annuities, employee benefit plans and pension security management products to customers. It intensified efforts to optimise the strategic layout of its pension business and advanced scenario building for the silver economy, thereby vigorously supporting its development. As at 30 June 2021, pension funds under custody reached RMB120.860 billion, an increase of RMB19.068 billion or 18.73% compared with the prior year-end. The total number of enterprise annuity individual accounts held by the Bank reached 3.5697 million, an increase of 0.1561 million or 4.57% compared with the prior year-end. Assets under custody amounted to RMB691.721 billion, an increase of RMB98.849 billion or 16.67% compared with the prior year-end. The Bank provided enterprise annuity services for more than 12,000 clients.

Personal Banking

Guided by its customer-centric philosophy, the Bank continued to build a professional retail bank, with wealth finance at its core and cross-border finance and consumer finance as specialist services. It remained

[1] Inclusive finance loans granted to micro and small-sized enterprises are measured in accordance with the Circular of the General Office of China Banking and Insurance Regulatory Commission on Further Promoting the High-quality Development of Financial Services for Micro and Small-sized Enterprises in 2021 (Yin Bao Jian Ban Fa [2021] No. 49).

committed to bolstering its development momentum in order to realise the dividends of structural reform to its personal banking business. The Bank also comprehensively accelerated digital and capital-light transformation, pushed ahead with improvements to its business structure and sharpened the competitiveness of its personal banking business. In the first half of 2021, the Group's personal banking business in the Chinese Mainland realised an operating income of RMB103.312 billion, a year-on-year increase of RMB3.110 billion or 3.10%.

Account Management Business

In response to the trend of interest rate liberalisation, the Bank leveraged its advantages in comprehensive personal financial services and made progress in deposit product innovation and smart account development. By accelerating the comprehensive reform of its cardless personal banking services, the Bank completed the R&D phase of its "digital debit card" and put it into pilot operation, enabling customers to open an account without a debit card and promoting cardless transactions for services such as cash deposit and withdrawal, transaction record printing, foreign currency exchange and investment and wealth management, with the aim of creating a whole new service model that features "accounts integrated with mobile banking". As at 30 June 2021, 100% coverage of cardless services was available for all high-frequency scenarios. The Bank also worked to enrich products and services for elderly customers by launching "BOC Care Debit Card" for family customers and providing one-stop "Finance Plus" services. As the only bank in China to serve the Beijing 2008 Summer Olympics and the Beijing 2022 Winter Olympics, the Bank is set to provide services such as RMB account opening, foreign currency exchange, mobile payment and domestic acceptance of overseas bank cards for short-term visitors to China during the Winter Olympics, and promoted the Beijing 2022 Games-themed Visa debit card for cross-border customers in an effort to build a strong brand image for its payment settlement services. The Bank's "Comprehensive Cardless Application of Personal Banking Business and Smart Counter 4.0" programme was recognised as the "2021 Best Frictionless Customer Experience Initiative in China" by *The Asian Banker*.

Wealth Finance Business

Focusing on creating mutual value with customers, the Bank stepped up efforts to boost the high-quality and sustainable development of its wealth finance business and advance the scale growth and structural optimisation of all types of financial assets, with the aim of building a strong wealth management brand and increasing its market appeal. Adhering to a customer-centric approach, it remained committed to implementing the strategic requirement of pursuing "common prosperity" and established a "Group-wide + market-wide" wealth finance platform. The Bank also shifted its focus from selling proprietary products to an "open shelf" platform, from being a product seller to an investment advisor assisting the buyers, and from relying on transaction-driven growth to pursuing service-driven development, thus improving its capabilities in comprehensive product selection, refined customer management and professional team services. As at 30 June 2021, the total financial assets under management of the Group's personal customers exceeded RMB11 trillion and the income generated from wealth finance business increased by 25% year-on-year. BOC Robot Advisor recognised an average yield of 41.68% since launched, exceeding its performance benchmark by 27.40 percentage points, and generated accumulated sales of RMB29.6 billion from more than 250,000 customers. As at 30 June 2021, the Bank had set up 8,072 wealth management centres and 1,102 prestigious wealth management centres in the Chinese mainland.

Consumer Finance Business

In strict compliance with national policies, the Bank proactively adjusted its structure and promoted transformation, maintained steady development of its residential mortgage business, and accelerated the upgrading of its inclusive finance and consumer loan businesses, thus showing a 'One Stable and Two Fast' business development phenomenon. The Bank fulfilled the concentration management requirements for residential mortgage loans, and strivingly met the reasonable demands of those who sought loans for house purchase. The Bank also made tireless efforts to enrich its inclusive finance personal loan products. It optimised the inspection process, approval rules and credit model of online personal business loan product "Tax Loan", and supported the production and operation of self-employed individuals and micro and small-sized enterprises. In line with the development strategy for rural revitalisation, the Bank stepped up efforts to build its inclusive financial services system, explored upstream and downstream development opportunities in the industrial chain, and took solid action to promote the development of offline agriculture-related loan business, thus building a universal development model alongside its online agriculture-related loans. In addition, the Bank built an efficient and convenient consumer loan product system and achieved centralised and intelligent post-lending management, with the online loan product "BOC E-Credit" serving as a key breakthrough point. As at 30 June 2021, the balance of personal RMB loans of the Group's commercial banking business in the Chinese mainland was RMB5,251.290 billion, an increase of RMB272.076 billion or 5.46% from the prior year-end. Within this increase, the proportion of non-housing loans within the incremental personal loans significantly increased compared with the end of 2020.

Private Banking Business

The Bank accelerated the development of its private banking business, vigorously boosted product and service innovation, enhanced its specialised business system and built up its private banking service brand, thus providing high-net-worth customers with professional, comprehensive and globalised financial services. As at 30 June 2021, the number of the Group's private banking customers reached 141,200, with financial assets under management surpassing RMB2 trillion. The Bank strengthened the development of its specialised systems comprising the platforms of investment strategy, asset allocation, wealth inheritance services, Asia-Pacific private banking, services for ultra-high-net-worth customers, and value-added services. It also accelerated the development of the family trust business, with the number of family trust customers increasing by 48.89% compared with the end of 2020. Embracing asset allocation as a strategic growth driver, the Bank shifted its business focus from product sales to portfolio allocation. The scale of asset allocation products held on consignment grew by 85.16% compared with the end of 2020. Moreover, drawing on the Group's advantages in globalised operations, the Bank made phased progress towards building its Asia Pacific Private Banking Platform. It also improved its professional service capabilities and released Chinese and English versions of the *Bank of China Private Banking Global Investment Strategy Report*, thereby forming an investment strategy system consisting of daily, weekly, monthly, quarterly and annually reports. The Bank accelerated the establishment of private banking centres by building 90 such centres in the Chinese mainland, and promoted the in-depth development of professional teams of private banking relationship managers, private bankers and investment advisors. The Bank was awarded "Best National Private Bank in China (State-owned Banks)" once again by Asian Private Banker and "China Private Banking Awards — Best Private Bank for International Network" by *Asiamoney*.

Personal Foreign Exchange Business

The Bank further enriched its personal foreign exchange services by increasing the number of currencies available in its personal deposit and withdrawal business to 25 and the number of convertible foreign currencies available to customers to 39, thus maintaining a leading position among peers. Focusing on key customer groups, key regions and key businesses, the Bank accelerated product and service innovation, steadily promoted the optimisation of exchange settlement services for salary payment and its business expansion, and improved digital currency systems for currency exchange in order to deepen the application of digital currencies in the field of personal banking. It also improved customer experience by launching a foreign exchange cash reservation service for 23 currencies via e-channels such as mobile banking, WeChat banking and online banking in major cities in the Chinese mainland. As at 30 June 2021, the personal foreign currency deposits of the Group's commercial banking business in the Chinese mainland amounted to USD44.724 billion, representing the largest market share among peers.

Bank Card Business

The Bank closely followed changes in industry trends and made great efforts to sharpen its brand competitiveness. Centring on the country's development plan for nationwide winter sports, the Bank launched the Beijing 2022 Olympic Winter Games-themed credit card and continued to build up its reputation by being the only bank in China to serve the Beijing 2008 Summer Olympics and the Beijing 2022 Winter Olympics. It thereby consolidated and enhanced its differentiated market competitiveness, especially as a cross-border brand and Winter Olympics brand. Moreover, the Bank supported the development philosophy of green finance, including boosting sales of new-energy vehicles by launching an instalment plan for automobile purchases, and strongly supporting the development of domestic new-energy vehicle brands. Emphasising on high-quality customer acquisition and customer activation, it focused on active scenarios such as mobile banking and launched important services including quick payment and instalments to activate existing customers and expand new customers, and thus continuously stimulate customer activity. It also explored the potential of high-frequency payment scenarios to build a service ecosystem. Focusing on sports, cross-border, education, automobile and other scenarios, as well as small-amount and high-frequency transactions related to people's livelihood consumption, the Bank continued to enhance the "BOC Benefit Day" brand and enrich the customer experience through online and offline scenario collaboration. As at 30 June 2021, the Bank had issued a total of 133.4291 million credit cards. In the first half of 2021, credit card consumption amounted to RMB778.736 billion, including RMB186.479 billion from credit card instalments.

Centring around the digital transformation strategy, the Bank accelerated digital transformation and scenario building for its bank card business. It steadily promoted its debit card business and expanded scenario-based applications for mobile payments, thus continuing to improve customer experience. Through the Campus One-Card Express service mode, the Bank leveraged its advantages in higher education institution services, made efforts to create a "Whole Education" scenario, promoted the building of a smart campus platform and launched an education zone on its mobile banking platform. It continued to enrich its integrated "online + offline" and "financial + non-financial" services, issued social security cards equipped with financial functions in cooperation with local Human Resources and Social Security Bureaux, and expanded the functions of its electronic social security cards and medical insurance e-vouchers. As at 30 June 2021, the Bank had cumulatively issued 114 million physical social security cards and 3.1920 million electronic cards. It strongly developed rail travel scenarios and completed the promotion of Railway e-Card on 39 railway lines, covering national strategic regions such as the Beijing-Tianjin-Hebei region, the Yangtze River Delta, the Guangdong-Hong Kong-Macao Greater Bay Area and the Hainan Pilot Free Trade Port, and serving over 3.50 million customers.

Financial Markets Business

The Bank actively aligned itself with trends towards interest rate and exchange rate liberalisation and RMB internationalisation. By closely tracking financial market developments, it continuously improved its business structure and strengthened efforts to achieve compliance with international regulatory requirements, thus maintaining its competitive advantages in financial markets business.

Securities Investment Business

By strengthening its analysis and forecasting regarding the macro-economic situation and market interest rates trend, the Bank proactively seized market opportunities, fine-tuned its investment progress as appropriate and dynamically adjusted its investment portfolio, in a bid to mitigate portfolio risk. It actively invested in green bonds and local government bonds, and strongly supported the development of green finance and the real economy.

Trading Business

The Bank continuously improved its financial markets business systems, consolidated its development foundations and enhanced its comprehensive customer service capabilities. It continued to outperform peers in terms of market share of foreign currency exchange against RMB, with the Bank providing 39 currency pairs available for exchange. The total number of foreign exchange trading currencies was 110, among which 99 were currencies of emerging economies and 46 were currencies of countries along the Belt and Road. The Bank intensified efforts to promote the concept of "market risk neutral" trading strategies, and made comprehensive use of financial market trading instruments to provide convenient hedging services and assist enterprises in enhancing their risk management capabilities. It also improved its online service capabilities. Seizing opportunities arising from the two-way opening-up of financial markets, the Bank took steps to expand its overseas institutional investor customer base, relying on a multi-tier service system that integrates trading, sales and research. It strengthened its quantitative trading capacity, advanced the building of a quantitative trading platform and refined its quantitative strategy. Closely tracking the global reform of interest rate benchmarks, the Bank promoted hedging transactions that adopt the new interest rate benchmarks. It enhanced its risk management and control capabilities, improved infrastructure building and strengthened the foundations for its business development. Benchmarking against self-regulated norms and best practises in the industry, the Bank also performed a self-regulated assessment of the implementation of its risk-neutral concept.

Investment Banking Business

The Bank followed its mission to serve the real economy, leveraged the competitive advantages of its international and diversified operations, and strived to deliver an integrated "commercial banking + investment banking" service system. Focused on national strategies, it increased efforts to develop its direct financing and investment banking advisory businesses, including domestic and overseas bond underwriting and distribution, asset-backed securitisation, etc., in order to meet customers' all-round needs for "onshore + offshore", "financing + intelligence" integrated financial services. To facilitate the development of China's capital market and its two-way opening-up, the Bank underwrote bonds in the China Interbank Bond Market with a total amount of RMB764.208 billion in the first half of 2021. It strongly boosted its underwriting business for financial institutions, with its financial bond underwriting business having now remained a leader in the market for many consecutive years. The Bank actively promoted the asset-backed securitisation ("**ABS**") business, thus its market share in asset-backed notes ("**ABN**") underwriting business ranked first in the interbank market. The Bank also actively supported the issuance of green bonds. It underwrote the first batch of carbon-neutral bonds and sustainability-linked bonds, and helped non-financial enterprises and financial institutions to issue green bonds totalling RMB50.901 billion. The Bank served as underwriter in the debut issuance of carbon-neutral ABNs in China, and the first green automobile ABS in the market. In addition, the Bank further built its competitiveness in cross-border underwriting business and maintained the largest market share in both China offshore bond underwriting and Panda bond underwriting. As a result, the brand influence of "BOC Debt Capital Markets" was continuously enhanced.

Asset Management Business

The Bank pushed forward the orderly transformation of its wealth management business and constantly enhanced its investment management and research capabilities. It made steady progress in the rectification of its existing wealth management business scale, appropriately disposing of the assets held under its existing wealth management products ("**WMPs**"). BOC Wealth Management ("**BOCWM**") promoted the development of net-value WMPs, and steadily grew its product volume. As at 30 June 2021, the total balance of off-balance sheet WMPs offered by the Bank and BOCWM amounted to RMB1,413.726 billion, among which the balance of WMPs offered by BOCWM was RMB867.999 billion.

Custody Business

Pursuing national development strategies and consolidating its specialised business advantages, the Bank strived to promote the high-quality development of its custody business. As at 30 June 2021, total assets of the Group's custody business amounted to RMB13.05 trillion, with its market share increasing in terms of custody business scale and income. The Bank achieved the strongest growth rates among major Chinese peers in terms of size of mutual funds under custody, and ranked among the top class in the industry in terms of the number and size of newly issued mutual funds under custody. It actively directed financial resources towards the field of green development and became the sole supervision institution for the fund-raising accounts of the National Green Development Fund. The Bank supported the development of a multi-tier pension security system and implemented a number of key annuity and insurance fund custody programmes. It also worked to refine the functions of its custody business system, and further improved its operational service efficiency and risk control capability.

Village Bank

BOC Fullerton Community Bank actively implemented the national strategy of rural revitalisation with the development concept of "focusing on county area development, supporting farmers and small-sized enterprises, and growing together with communities". It is committed to providing modern financial services to county-level micro and small-sized enterprises, individual merchants, wage earners and farmers, developing inclusive finance, and providing financial services for rural revitalisation.

As at 30 June 2021, BOC Fullerton Community Bank controlled 124 village banks with 184 sub-branches in 22 provinces (including municipalities directly under the Central Government) through establishment and acquisition, of which 65% of the institutions located in the mid-west region. It is the largest domestic village bank group in terms of total institutions and business scope. It also continuously improved its product and service system to further expand its customer base. As at 30 June 2021, the registered capital of BOC Fullerton Community Bank amounted to RMB8.618 billion. The balances of total deposits and loans of these banks stood at RMB52.310 billion and RMB65.714 billion respectively. The NPL ratio was 1.46%, and the ratio of allowance for loan impairment losses to NPLs was 241.82%. During the first half of 2021, BOC Fullerton Community Bank achieved a profit of RMB449 million.

Globalised Operation

Boasting the most extensive global footprint among its Chinese peers, the Bank strived to enhance its globalised operations within the context of the new national development stage. It actively served China's new development paradigm and the national strategy of high-standard opening-up, and continuously enhanced the value-creation capacity for its globalised business. As at 30 June 2021, the Bank's deposits from customers and loans in markets outside the Chinese mainland totalled USD552.918 billion and USD455.495 billion respectively, an increase of 13.97% and 11.70% from the prior year-end. In the first half of 2021, the Bank's commercial banking business outside the Chinese mainland achieved a profit before income tax of USD3.642 billion, a decrease of 1.89% compared with the same period of the prior year, accounting for 15.89% of the Group's total profit before income tax.

The Bank continued to optimise its global network and further enhanced its capability to provide globalised services to customers. As at 30 June 2021, the Bank had 556 overseas institutions, covering 61 countries and regions, including 25 countries along the Belt and Road.

The Bank continued to optimise its global network management architecture and operating mechanism by building an effective flat matrix management structure and enhancing its differentiated approaches. It continued to press forward with the management and construction of overseas regional headquarters in regions such as Southeast Asia and Europe, Middle East and Africa ("**EMEA**"), and meanwhile promoted the operational streamlining of its business lines. The Bank implemented categorisation of its branches and subsidiaries outside the Chinese mainland and adopted a differentiated development approach by further formulating a distinct local strategy for each institution. This approach enabled the Bank's operations outside the Chinese mainland to gain a stronger footing for pursuing sustainable growth and generating greater synergies within its global network. In addition, the Head Office and overseas trading centres built a global trading network according to product line and time zone, instituting backup facilities in Beijing, Shanghai, Hong Kong, London and New York to ensure business continuity.

Corporate Banking

Keeping a close eye on changes in global markets, the Bank strengthened its analysis of the trend and risk management, and took effective measures in line with local conditions to ensure the stable and sustainable development of its overseas corporate banking business. It gave full play to its advantages in globalised and integrated operations, pushed forward the integration of domestic and overseas operations, and facilitated smooth domestic and international circulations, thus making positive contributions to both China's economic development and global economic recovery.

The Bank delivered services to its "Going Global" and "Bringing In" customers, Fortune Global 500 corporates and local enterprise customers. By virtue of its high-quality products in syndicated loans, M&A financing, project financing, letter of guarantee, international settlement, trade finance and global cash management, it offered strong support to key areas and projects including infrastructure development, green industries and international cooperation in production capacity, made solid progress towards the high-quality development of the Belt and Road Initiative, and bolstered the development of China's dual circulation pattern by delivering high-quality, efficient, customised and comprehensive financial services. The Bank gave full play to the advantages arising from its global institution network and conducted all-round cooperation with various financial institutions in areas such as clearing, settlement, loans, investment, custody, treasury operations and comprehensive capital market services, expanding its customer base and enhancing its international influence. Making agile response to the challenges brought about by the new situation, the Bank continually promoted information exchange in the international financial sector, held multiple live-streamed "cloud road shows" for overseas customers and provided them with practical solutions and supporting services, thereby securing its market position as the preferred partner among Chinese banks for foreign institutional investors entering China's capital markets. It made full use of its international partnership network, drew on its advanced global experience and established a peer communication and cooperation mechanism to keep strengthening its participation in ESG-related fields across the world.

Personal Banking

The Bank continued to improve its overseas service system for personal customers and expanded its business to cover over 6 million customers in more than 30 countries and regions. It offered comprehensive services to personal customers in Hong Kong, Macao and Singapore, etc.

The Bank built a one-stop comprehensive service platform covering the whole service process. Relying on cross-border scenarios, it vigorously promoted business innovation, proactively met costumers' demands and provided various services such as account, settlement, debit card and mobile banking for overseas business travellers, students studying abroad, expatriates and local customers. It enriched its cross-border financial service system, improved remittance services for students studying abroad and remuneration exchange settlement services for expatriates, and stepped up efforts to enhance product competitiveness. Focusing on key regions, the Bank developed its cross-border business with regional characteristics and improved its financial service system in the Guangdong-Hong Kong-Macao Greater Bay Area. As at 30 June 2021, the Bank had opened a total of over 142,600 domestic RMB settlement accounts in the region via BOCHK's "Greater Bay Area Account Opening" service.

The Bank steadily pushed forward the development of overseas private banking and wealth management. By focusing on the two themes of overseas personal asset allocation and investment in China, the Bank accelerated the building of global brands in "Private Banking", "BOC Prestigious Wealth Management" and "BOC Wealth Management". It also stepped up the promotion of overseas versions of its mobile banking platform, expanding its services to 30 countries and regions. The Bank continued to improve its overseas debit card offerings and issued debit cards in 19 countries and regions, covering the three brands of UnionPay, Visa and MasterCard. It improved its debit card acceptance network, joined local clearing organisations, facilitated customer card use convenience and reduced transaction costs, thereby better satisfying the global card usage demands of overseas customers. The Bank strengthened the management and development of its overseas institutions' key credit card products and businesses, ensured that operations were in compliance with relevant laws and rules.

Financial Markets Business

The Bank actively carried out bond investment business while steadily improving the global integrated management level of its investment operations. It provided appropriate levels of authorisation to its overseas institutions to carry out investment activities, and at the same time strengthened risk control.

The Bank took full advantage of its globalised operations to provide stable and continuous dealing services worldwide. It continued to improve its global service capability and further consolidated its competitive advantages. Following national strategies, the Bank continued to actively provide RMB market making in Taiwan (China), Singapore, South Korea, Kazakhstan, Russia and other countries and regions, in a bid to facilitate the internationalisation of RMB. Seizing the historic opportunity of China's opening-up of financial markets, the Bank provided overseas institutional investors with high-quality dealing services for domestic bonds and derivatives. It continuously improved infrastructure construction, innovated its management mechanism, enhanced customer service capability and optimised customer experience. The Bank consolidated the advantages of its globally integrated trading business and strengthened capacity building in its overseas trading centres. The Hong Kong Offshore RMB Trading Centre continued to improve its market-making and operation capabilities. The London Trading Centre actively coped with the impact of the pandemic, steadfastly remained on duty and maintained stable operations. In the first half of 2021, the Bank underwrote RMB15.7 billion of Panda bonds, ranking first among peers with a market share of 33.76%. The Bank underwrote USD4.464 billion of China offshore bonds, ranking first among peers with a market share of 4.85%. The Bank ranked first among Chinese banks in underwriting Asia (ex-Japan) G3 currency bonds, reaching a total of USD6.258 billion and securing a market share of 3.14% during the period. It also remained a leading position among Chinese peers in terms of cross-border custody business, and further improved custody services for global customers.

Clearing Business

The Bank continuously improved its cross-border RMB clearing capabilities and strivingly promoted the cross-border application of RMB, thus further consolidating its leading edge in international payments. As at 30 June 2021, the Bank accounted for 13 of the world's 27 authorised RMB clearing banks, and continued to lead its peers. In the first half of 2021, the Group's cross-border RMB clearing transactions totalled RMB311 trillion, an increase of more than 35% compared with same period of the prior year, maintaining the leading position in the global market. The Bank continued to expand its clearing network via its Global Unified Payment Platform System, which covers 64 institutions across 52 countries and regions, and connects to 48 local clearing systems in 31 countries and regions.

Online Services Channels

The Bank continued to expand the coverage of its overseas corporate online banking and further enhanced its global corporate online financial service capabilities. Leveraging its online financial service platform and integrating its overseas and domestic operations, the Bank enriched the service functions of its overseas corporate online banking and overseas bank-enterprise connection channels, expanded its clearing channels and strengthened the online service capabilities of its overseas institutions, thereby continuing to lead its peers in global cash management services. As at 30 June 2021, the Bank offered overseas corporate online banking services in 51 countries and regions, with 15 languages available for customer service.

Technology Support

The Bank continuously improved its global IT management mechanism, and pushed forward the optimisation of its overseas systems function and product promotion, according to the differentiated management strategy for overseas institutions. It strengthened technology empowerment and pushed forward the implementation of key projects such as the automation improvement of overseas comprehensive management platform and regulatory statement platform, and further improved the level of global service.

BOCHK

BOCHK actively responded to rigorous market challenges and further strengthened the execution of its strategic plans. It steadily pushed forward its business priorities and strived to achieve high-quality development. BOCHK actively embraced ESG concepts, vigorously promoted green finance and improved its capability for sustainable development. It also responded to the financial policies of the Guangdong-Hong Kong-Macao Greater Bay Area and captured related market opportunities, as well as continually developed its local market in Hong Kong. BOCHK gave full play to its regional synergies in Southeast Asia in order to implement its integrated business systems. It expedited its digital and innovation-driven development and increased the application of FinTech in its products and services. In addition, it strengthened its risk and compliance controls, with major financial indicators remaining at solid levels. As at 30 June 2021, BOCHK's issued share capital was HKD52.864 billion. Its total assets amounted to HKD3,834.870 billion and net assets reached HKD322.293 billion. In the first half of 2021, its profit for the period was HKD13.591 billion.

BOCHK actively embraced ESG concepts and continuously promoted green finance. BOCHK remained committed to enriching its green finance products and services so as to encourage and assist clients' business transformation towards sustainable development and support Hong Kong's establishment as a green financial centre. This included the launch of the SME Green Financing Incentive Scheme, green deposits, green syndicated loans and a green advisory service. BOCHK also launched the BOCHK All Weather ESG Multi-Asset Fund, the first ESG fund authorised by the Securities and Futures Commission in Hong Kong, and successfully issued "sustainable and smart living" themed green bonds. In recognition of its ESG efforts, BOCHK was rated AA by MSCI ESG Research LLC for the fifth consecutive year, selected as a constituent of the Hang Seng Corporate Sustainability Index Series for the 11th consecutive year, and awarded "Best Bank for CSR in Hong Kong" by Asiamoney for the third consecutive year.

BOCHK captured market opportunities and continued to develop the local market. The growth of BOCHK's total customer deposits and loans was above the market average, with deposit structure being further optimised and the asset quality of its loan portfolio outperforming the peers. It enhanced internal and external collaboration in order to engage in major syndicated loan projects, maintaining its top market share in the Hong Kong-Macao syndicated loan market. Seizing opportunities arising from the secondary listing of China concept stocks and the development of capital markets, BOCHK successfully captured the receiving bank business of all secondary listing projects in Hong Kong in the first half of 2021. As a result, it maintained its top market position as an IPO receiving bank in terms of both the total number of listing projects and total funds raised during the period. It also cooperated closely with real estate intermediaries in order to develop and promote the scenarios of property search and mortgage services available on its Home Expert mobile application. This enabled BOCHK to capture first-hand mortgage business opportunities and maintain its top market position in terms of the total number of new mortgage loans. In addition, it secured market leadership in the cash pooling business by leveraging Hong Kong as an ideal hub for corporate treasury activities, with its business coverage now extending to central enterprises, state-owned enterprises, industry giants, local large-scale enterprises and foreign enterprises from 29 countries and regions.

BOCHK deepened cross-border collaboration and proactively supported the construction of the Greater Bay Area. To actively respond to financial policies and capture market opportunities related to the Guangdong-Hong Kong-Macao Greater Bay Area, BOCHK gave full play to its competitive edge in integrated service capabilities by providing diversified products and services to key industries and target customers in the Chinese mainland, including those in the new infrastructure and technological innovation sectors, thus fulfilling their cross-border financial demands. It also continued to deepen collaboration within the Group, with a view to enhancing synergies in client service, business innovation and risk management. In order to meet the various spending, lifestyle and investment needs of residents in the Greater Bay Area, BOCHK continued to optimise the customer experience of cross-border financial services in the Greater Bay Area Account Opening and Personal Loan mortgage services. It also made full preparations for the launch of its cross-border Wealth Management Connect service, so as to contribute to financial interconnectivity within the Greater Bay Area.

BOCHK improved its regional presence in Southeast Asia and fully leveraged its regional synergies. BOCHK strengthened its regional headquarter management and implemented a "One Bank, One Policy" operating model according to the local conditions of each of its Southeast Asian entities. This allowed the entities to step up their own marketing efforts and successfully expand their key customer bases, giving rise to more business opportunities in syndicated loans, customer deposits, letters of credit and letters of guarantee. With the aim of further enhancing its regional operations, BOCHK made earnest efforts to centralise regional management in the Southeast Asia and expedite the transfer of its managing role to the Regional Operation Centre in Nanning, Guangxi. Adhering to stringent risk management, it strengthened its Southeast Asian entities' risk management capabilities in credit risk, market risk, interest rate risk and liquidity risk, as well as its risk control capabilities in compliance, anti-money laundering and anti-fraud, by leveraging its systems and technical advantages. BOCHK remained committed to pushing forward digitalisation and financial product innovation, gradually rolling out a number of digital services in the Southeast Asian region including its intelligent Global Transaction Banking platform (iGTB), mobile banking, the Enterprise Resources Planning Integration service, BoC Bill and the FXall Digital Transaction Platform. It further improved its operational presence in the first half of 2021 with the commencement of business at BOCHK Yangon Branch in Myanmar and BOCHK Hanoi Representative Office in Vietnam, while BOCHK Manila Branch officially launched its RMB clearing business in the Philippines. In addition, BOCHK deepened its Asia-Pacific business collaboration mechanism with the Bank's Singapore Branch and Sydney Branch, achieving steady progress in its syndicated loan, cash management, trade financing, account opening attestation, treasury transaction and wholesale banknote businesses. Despite the challenges posed by the pandemic, its Southeast Asian entities recorded solid growth in deposits from customers and advances to customers, while maintaining stable asset quality.

BOCHK pushed forward its digital transformation and further enhanced customer experience. Backed by digital, intelligent and ecological support, BOCHK was able to provide impetus to its business development and enhance customer experience through digital transformation. It actively promoted open banking services and pushed forward business ecologies with a focus on various livelihood-related scenarios. It continued to provide payment solutions to HKSAR government agencies and clients in the transportation, education, retail, and food and beverage sectors, to provide more convenient payment channels to the general public. BOCHK implemented a number of measures to continuously enhance operational efficiency and promote digitalisation processes, including the use of intelligent customer services, blockchain technology, the use of e-platforms for service applications and transactions, robotic process automation in its middle and back offices, and the extension of iGTB platform coverage to the Southeast Asian region. It also shifted enthusiastically towards intelligent operations by enhancing its mobile banking functionalities, introducing intelligent devices to its service outlets and implementing a web risk monitoring system. At the same time, it optimised its agile mechanisms and systems, strengthened the formation of agile teams and culture, and continuously pushed forward the construction of its cloud-based system so as to provide all-round support to its strategic digital transformation initiative. BOCHK was awarded "Hong Kong's Best Digital Bank 2021" by Asiamoney.

Comprehensive Operation

The Bank is committed to serving the national strategies and the real economy. Focusing on customers' comprehensive financial needs, the Bank continuously improved its comprehensive operations, deepened the coordination mechanism for key regions, and worked to enhance its risk management capabilities. It endeavoured to sharpen the Group's differentiated advantages based on its comprehensive operations, boosted high-quality development, and thereby became a driver of value creation, functional innovation and mechanism exploration for the Group.

Investment Banking Business

BOC International

BOC International engages in investment banking business. As at 30 June 2021, BOC International had an issued share capital of HKD3.539 billion, total assets of HKD115.655 billion, and net assets of HKD22.381 billion. In the first half of 2021, BOC International realised a profit for the period of HKD993 million.

BOC International continued to strengthen its advantages in the traditional investment banking business, accelerated the development of wealth and asset management business, and further enhanced its globalised and comprehensive service capabilities. Leveraging its advantages in traditional investment banking business, BOC International integrated into the new national development paradigm in which domestic and international circulations reinforce each other, focusing on equity financing, debt financing, M&A and restructuring, and global commodities. BOC International assisted with the secondary listing or dual listing of several US-listed China concept stocks on the HKEX, becoming one of the most experienced Chinese investment banks in this field. It continued to improve its asset management capability by developing and promoting ESG indices and asset management products. BOCI-Prudential Asset Management Limited, a subsidiary of BOC International, maintained its position as a top-ranked service provider in the Hong Kong Mandatory Provident Fund (MPF) and Macao Pension Fund businesses. BOCI-Prudential also actively prepared for the implementation of "Cross-border Wealth Management Connect" in the Guangdong-Hong Kong-Macao Greater Bay Area, while two funds approved under the Mainland-Hong Kong Mutual Recognition of Funds (MRF) scheme, namely the BOCHK Hong Kong Equity Fund and BOCHK Global Equity Fund, were offered for public subscription in the Chinese mainland market. In the first half of 2021, BOC International ranked among the top in the industry in terms of Hong Kong market turnover, including in both securities and derivatives (warrants & CBBC) products, while the "BOCI Greater Bay Area Leaders Index" continued to outperform its peers and other mainstream Chinese equity stock indices. BOC International also continued to improve its global customer service capabilities. It participated in the issuance of Saudi Aramco's first USD sukuk, and was the only Chinese investment bank to participate in the issuance of Pakistan's overseas USD sovereign bond. In addition, BOC International accelerated its global commodity centre development. It proactively participated and facilitated the internationalisation of the onshore commodities futures market, and assisted Shanghai International Energy Exchange in further enriching its crude oil futures products. BOC International continued to push forward the digital transformation of its business, improved the securities service functions of its mobile apps, applied big data and AI to further enhance its online trading and wealth management business, and developed robo-advisory and other FinTech applications to continuously improve user experience, thereby maintaining steady growth in its brokerage business. Furthermore, BOC International pressed ahead with the development of green finance and participated in the issuance of several Chinese institutions' overseas green bonds.

BOCI China

BOCI China engages in securities-related business in the Chinese mainland. As at 30 June 2021, the registered capital, total assets and net assets of BOCI China were RMB2.778 billion, RMB59.886 billion and RMB15.354 billion, respectively. It realised a profit for the period of RMB616 million in the first half of 2021.

BOCI China promoted business transformation through technological empowerment. Focusing on the wealth management needs of individual customers, it constructed the customer-centric product system, refined the comprehensive service process for wealth management, and improved the service capability of its investment advisors. Deepening its synergistic advantages of "investment banking + commercial banking", "investment banking + investment" and "domestic + overseas", and targeting key clients and key industries, BOCI China drew up blueprints for technology finance, green finance and other national key strategic areas and shifted its investment banking business focus towards transaction-driven comprehensive financial services and its asset management business focus towards active management services. BOCI China further improved its customer service capabilities. In addition, the brand reputation of its research products was further enhanced.

Asset Management Business

BOCIM

BOCIM engages in fund management business in the Chinese mainland. As at 30 June 2021, BOCIM's registered capital amounted to RMB100 million, its total assets stood at RMB6.154 billion and its net assets totalled RMB4.699 billion. In the first half of 2021, BOCIM realised a profit for the period of RMB621 million.

BOCIM steadily expanded its asset management business and continuously improved its profitability. Its internal control and risk management capabilities remained robust and effective, and its comprehensive services continued to improve. As at 30 June 2021, BOCIM's AUM stood at RMB503.1 billion. Specifically, its public-offered funds reached RMB373.7 billion and its non-monetary public-offered funds reached RMB265.5 billion.

BOC Wealth Management

BOC Wealth Management engages in wealth management business in the Chinese mainland. BOC Wealth Management's business includes wealth management products for the general public, wealth management products for qualified investors, advisory and consulting, and other asset management-related products and services. As at 30 June 2021, BOC Wealth Management's registered capital was RMB10.000 billion, its total assets amounted to RMB11.438 billion and its net assets totalled RMB10.959 billion. In the first half of 2021, its profit for the period reached RMB485 million.

BOC Wealth Management complied with regulatory requirements, continued to promote net-value wealth management product development, and steadily increased its assets under management. The company continued to expand its product offerings, bringing to market the first periodic-revolving product in the industry. BOC Wealth Management strengthened its investment and research capacity, launched "Independent Innovation", "Peak Carbon Dioxide Emissions", "Rural Revitalisation" and other themed products in accordance with the 14th Five-Year Plan, enhanced its asset allocation structure, and supported the high-quality development of the real economy. At the same time, BOC Wealth Management proactively enhanced its risk management system, improved the quality and efficiency of its operational service, strengthened its FinTech capacity, and promoted the digital transformation of its wealth management business. As at 30 June 2021, BOC Wealth Management's total AUM reached to RMB1,413.726 billion, while the company's own product balance amounted to RMB867.999 billion.

Insurance

BOCG Insurance

BOCG Insurance engages in general insurance business in Hong Kong. As at 30 June 2021, BOCG Insurance reported issued share capital of HKD3.749 billion, total assets of HKD9.994 billion and net assets of HKD4.299 billion. In the first half of 2021, BOCG Insurance recorded gross written premiums of HKD1.469 billion and realised a profit for the period of HKD142 million.

BOCG Insurance actively served national strategies and steadily expanded its general insurance business. Seizing market opportunities, it actively developed mandatory traffic insurance and commercial insurance products for Hong Kong private cars travelling to Guangdong via the Hong Kong-Zhuhai-Macao Bridge, and accelerated marketing and mechanism development for its regional products. It strengthened bancassurance collaboration mechanisms, explored the potential of various channels, and upgraded its business channels through B2B2C marketing. In addition, BOCG Insurance consolidated its advantages in traditional property insurance business and explored new health service models, making efforts to shift its approach from being solely a financial risk-taker to acting as a health manager, and promoting the sustainable development of health insurance as a strategic business. It promoted digital transformation across the board and officially launched a new-generation core system to serve the public. It improved the functions of its online platform, enhanced the online customer experience, rolled out the first cashless digital medical insurance claim settlement programme using blockchain technology, and realised online insurance purchase and claim payment for multiple products. In terms of fulfilling its social responsibilities, BOCG Insurance launched "One-For-Everyone" anti-epidemic insurance product, provided free extra benefits for its special "Peace of Mind Vaccination" product, and offered premium discounts to vaccinated customers, thereby contributing to Hong Kong's fight against the pandemic.

BOC Life

BOC Life engages in life insurance business in Hong Kong. As at 30 June 2021, BOC Life's issued share capital was HKD3.538 billion, total assets amounted to HKD190.039 billion and net assets amounted to HKD11.382 billion. In the first half of 2021, its profit for the period was HKD471 million.

BOC Life continued to implement its strategy of diversifying distribution channels. In view of the COVID-19 pandemic's continuous negative impact on offline insurance product sales, BOC Life constantly strengthened its business development via online channels. The standard new premium conducted via electronic channels increased by over 25% year-on-year, continuing to outperform its industry peers. BOC Life promoted cooperation and synergy with the Group, thus maintaining its leading market position in bancassurance sales and proactively expanded its tied agency and broker channels. BOC Life maintained its leading position in the life insurance business and remained the market leader in RMB insurance sector in Hong Kong, with RMB standard new premium increasing by over 65% year-on-year.

BOC Insurance

BOC Insurance engages in property insurance business in the Chinese mainland. As at 30 June 2021, BOC Insurance reported registered capital of RMB4.535 billion, total assets of RMB14.452 billion and net assets of RMB4.718 billion. In the first half of 2021, it realised written premiums of RMB3.311 billion and a profit for the period of RMB135 million.

BOC Insurance devoted great efforts to advancing supply-side structural reform, pushed forward bancassurance integration and collaboration, and maintained sound business development and steady profit growth. It supported the Belt and Road Initiative and served the Group's globalisation strategy. BOC Insurance maintained a leading position in the overseas insurance business, covering more than 30 industries in 70 countries and regions in Asia, Africa and South America. It supported the development of the real economy and China's industrial upgrading, provided credit enhancement for the financing of small and medium-sized private enterprises, and facilitated the upgrading of major technical equipment by offering an insurance compensation mechanism for the first (set of) major technical equipment. It supported customs clearance facilitation reform by providing services for the "single window in international trade" and moving online the full process of tariff guarantee insurance and cargo transportation insurance. In addition, BOC Insurance introduced new forms of claim settlement services, promoted automatic and smart upgrading, ensured the provision of financial services during pandemic prevention and control, and improved operational efficiency, speed of response and customer experience. Attaching great importance to consumer protection, it improved its consumer protection governance framework and mechanism.

*BOC-Samsung Life Ins. Co., Ltd. ("**BOC-Samsung Life**")*

BOC-Samsung Life engages in life insurance business in the Chinese mainland. As at 30 June 2021, BOC-Samsung Life's registered capital stood at RMB2.467 billion, total assets amounted to RMB40.180 billion and net assets amounted to RMB2.599 billion. In the first half of 2021, BOC-Samsung Life recorded written premiums and premium deposits of RMB8.401 billion and a profit for the period of RMB33 million.

Focusing on the original purpose of insurance, BOC-Samsung Life increased the supply of protection products and established a health insurance product system. In accordance with the CBIRC's revised definitions of critical illness for the insurance sector, BOC-Samsung Life launched four new critical illness insurance products to meet the needs of different customer groups, thus promoting rapid business growth. It improved its business structure and realised a year-on-year increase of 46% in first-year premiums in its protection and long-term savings business. Capitalising on FinTech trends, BOC-Samsung Life applied big data technology to enhance its insurance risk control capability, launched 24/7 robot underwriting consulting services, and pushed forward its transformation to online and platform-based services. It accelerated digital transformation, steadily advanced the building of its enterprise-level architecture and data middle office, and completed the deployment of a private cloud, thus enhancing its digital operation and management capability. It proactively promoted the development of an online insurance mall and explored the development of online insurance business. Furthermore, BOC-Samsung Life actively engaged with the Group's business collaboration strategy in key regions, and continuously increased its investments in the Guangdong-Hong Kong-Macao Greater Bay Area in the form of loans, trust and equity. As at 30 June 2021, BOC-Samsung Life had cumulative investments of RMB944 million in the Greater Bay Area.

Investment Business

BOCG Investment

BOCG Investment operates direct investment and investment management business. BOCG Investment's business scope includes private equity investment, fund investment and management, real estate investment and management and special situation investment. As at 30 June 2021, BOCG Investment recorded issued share capital of HKD34.052 billion, total assets of HKD140.553 billion and net assets of HKD72.565 billion, with a profit of HKD4.033 billion for the first half of 2021.

Actively integrating into the nation's new development pattern, BOCG Investment advanced its operations and management in a steady and orderly manner. Serving the national strategy, it invested in a number of enterprises in the fields of technology finance and green finance, including SVOLT Energy Technology, Shenzhen New Degree Technology, and 4Paradigm. BOCG Investment developed its business in key regions by making preparations for the launch of its Yangtze River Delta Fund II and Guangdong-Hong Kong-Macao Greater Bay Area Fund II, thus enhancing the Group's overall competitiveness. It also invested in enterprises such as SciClone Pharmaceuticals and JD Logistics, which were successfully listed on the HKEX. In addition, BOCG Investment continued to optimise its sources of financing and strengthen its market-oriented financing capabilities, including successfully issuing an RMB2.5 billion Panda bond. Moreover, it made good progress in the informatisation, digitisation and automation of its businesses by developing and optimising different IT systems, such as the investment management system.

BOC Asset Investment

BOC Asset Investment engages in debt-for-equity swap and related business in the Chinese mainland. As at 30 June 2021, the registered capital of BOC Asset Investment was RMB14.500 billion, with total assets and net assets standing at RMB84.111 billion and RMB16.921 billion respectively. In the first half of 2021, it realised a profit for the period of RMB1.129 billion.

BOC Asset Investment conducted its debt-for-equity swap business based on market-oriented and rule-of-law principles, with the aim of improving enterprises' business operations and helping them to reduce leverage ratios and improve market value. Committed to the development of green finance, the company completed its first clean energy high-end equipment project in line with the national development goal of achieving "peak carbon dioxide emissions and carbon neutrality". It invested in strategic emerging industries and empowered leading domestic industrial internet enterprise to accelerate the construction of a national industrial internet platform. A special fund for debt-to-equity swaps was established by BOC Asset Investment and China Reform Holdings Corporation Ltd. to support the optimisation and coordinated development of the country's industrial structure, with an initial allocation of RMB10.0 billion. The company also coordinated the Group's risk asset disposal work, based on its strengths as a professional and experienced platform for risk asset restructuring. As at 30 June 2021, the cumulative market-oriented debt-for-equity swap business reached RMB172.426 billion, representing an increase of RMB13.623 billion within the year.

Leasing Business

BOC Aviation

BOC Aviation engages in aircraft leasing business. BOC Aviation is one of the world's leading aircraft operating leasing companies and is the largest aircraft operating leasing company headquartered in Asia, as measured by value of owned aircraft. As at 30 June 2021, BOC Aviation recorded issued share capital of USD1.158 billion, total assets of USD23.893 billion and net assets of USD4.992 billion. It recorded a profit for the first half year of USD254 million as the company recognised the effects of the COVID-19 related downturn on the value of its aircraft and on airline customer cash flows and receivables.

Committed to pursuing sustainable growth, BOC Aviation continued to implement its proactive business strategy and steadily promoted its standing in the aircraft leasing industry. Actively supporting the Belt and Road Initiative, it had leased 65% of its aircraft to airlines of Belt and Road countries and regions, as well as airlines based in the Chinese mainland, Hong Kong, Macao and Taiwan, as at 30 June 2021. Continuing to closely develop customer demand, the company took delivery of 34 aircraft, including six aircraft that airline customers purchased at delivery, as it expanded its owned fleet. All of these aircraft have been placed on long-term leases. During the first half of 2021, BOC Aviation signed 26 leases for future deliveries and added three new customers, totalling 87 customers in 38 countries and regions. The company consistently sought to optimise its asset structure and improve its sustainable development. It sold nine owned aircraft in the first half of 2021, leaving it with an average owned fleet age of 3.7 years (weighted by net book value) as at 30 June 2021, one of the youngest aircraft portfolios in the aircraft leasing industry.

*BOC Financial Leasing Co., Ltd. ("**BOCL**")*

BOCL operates financial leasing, transfer and receiving of financial leasing assets and other related businesses. As at 30 June 2021, BOCL recorded registered capital of RMB10.800 billion, total assets of RMB25.230 billion and net assets of RMB10.665 billion. It realised a profit for the period of RMB15 million for the first half of 2021.

Following the strategic objectives of the Group, BOCL focused on national strategic regions and industries, upheld the development philosophy of specialisation, differentiation and featured characteristics, highlighted the featured characteristics of financial leasing, and refined and strengthened its leasing brand. As at 30 June 2021, it had cumulatively conducted more than RMB20.0 billion of financial leasing business, involving transportation, water conservancy, energy production and supply, construction, manufacturing and other industries. Specifically, the proportion of green leasing in the total leasing business was 37%, as the company continued to take practical steps to improve the quality and efficiency of its service to the real economy.

Consumer Finance

*BOC Consumer Finance Co., Ltd. ("**BOC Consumer Finance**")*

BOC Consumer Finance engages in consumer loan business in the Chinese mainland. As at 30 June 2021, BOC Consumer Finance's registered capital stood at RMB1.514 billion, total assets amounted to RMB37.894 billion and net assets amounted to RMB7.953 billion. Its outstanding loans stood at RMB38.350 billion, an increase of 14.76% over the prior year-end. In the first half of 2021, BOC Consumer Finance recorded a profit for the period of RMB532 million.

Focusing on customer needs, BOC Consumer Finance strived to build a featured ecosystem for consumer finance and continuously improved its customer service capability. It enhanced online and offline synergistic integration by establishing an integrated service platform featuring "online + offline integration and finance + technology integration". It has set up 27 regional centres to date, with its offline and online businesses covering approximately 400 cities and 900 counties nationwide, thus greatly increasing the coverage and availability of its consumer financial services. Continuously optimising the products and services, BOC Consumer Finance constantly improved consumers' financial service experience and effectively protected their legitimate rights and interests. It actively served national strategic regions, and provided customers with convenient, professional and flexible consumer financial products and services.

Financial Technology

*Bank of China Financial Technology Company Limited ("**BOC Financial Technology**")*

BOC Financial Technology conducts financial technology innovation, software development, platform operation and technical consulting services. As at 30 June 2021, the registered capital of BOC Financial Technology was RMB600 million, with total assets and net assets standing at RMB629 million and RMB569 million, respectively.

In supporting the Group to serve the national development strategy for the digital economy, BOC Financial Technology pushed forward the development and construction of key cities and regions including Hainan Province, Hebei-Xiongan New Area and the Yangtze River Delta through technology empowerment. Relying on its R&D bases in Wuhan, Hubei Province and Chengdu, Sichuan Province, it provided scientific and technological services for the surrounding areas. Focused primarily on providing services within the Group, the company supported significant Group projects and bolstered the Group's development in key areas by devoting efforts to data governance, reform of the company's credit authorisation system, intelligent risk control, inclusive finance and anti-money laundering programmes. It also developed the BOC Silver Scenario Construction Platform, BOC Education Scenario Construction Platform, BOC Sports Scenario Construction Platform, BOC Culture & Tourism Scenario Construction Platform, and BOC Intelligent Hospital, and supported the IT application programmes of the Group's comprehensive operation companies. Serving the Group's strategic output, BOC Financial Technology continued to dig down deep in the financial industry and delivered technological services to domestic and overseas banks to support anti-money laundering, credit risk control and other fields of IT service. It continuously stepped up research in product innovation, explored new technological innovations and applications, and built technological platforms such as blockchain platform and privacy computing platform.

Service Channels

Focusing on customer experience, the Bank accelerated the transformation and upgrading of all service channels, building online channels with stronger scenario integration capabilities and offline channels with greater value creation capacity. As a result, it cultivated an ecosystem in which online and offline channels are integrated and financial and non-financial scenarios are seamlessly connected.

Online Channels

Following a "Mobile First" strategy and embracing digital transformation trends, the Bank continued to increase efforts to expand its online channels and upgrade its mobile banking services, thus realising rapid growth in online business. In the first half of 2021, the Bank's substitution ratio of e-banking channels for outlet-based business transactions reached 95.99%. Its e-channel transaction volume reached RMB156.55 trillion, an increase of 16.87% year-on-year. Among this, mobile banking transaction volumes reached RMB19.75 trillion, an increase of 27.10% year-on-year, making mobile banking the online channel with the most active customers. The table below sets forth, as at the dates indicated, the number of the Group's online customers by categories:

	As at 30 June 2021	As at December 2020	Change
	(in millions)		*(%)*
Number of corporate online banking customers	6.0700	5.4351	11.68%
Number of personal online banking customers	197.3719	194.2267	1.62%
Number of mobile banking customers	223.3184	210.5524	6.06%
Number of telephone banking customers	111.1771	111.3692	(0.17%)

Following mobile internet trends, the Bank accelerated the construction of the Group's mobile integrated financial service portal for corporate customers. Leveraging the BOC iGTB platform, the Bank focused on frequently and commonly used services, mobile features, international settlement characteristics and open scenarios. It also built an intelligent corporate customer service platform featuring rich scenario ecosystems, superior user experience and flexible product portfolios, and provided corporate customers with comprehensive and multi-dimensional online financial services. It continuously enriched high-frequency primary services such as bank-enterprise reconciliation, transfer and remittance, account management, inclusive financing, investment and wealth management; launched exclusive mobile services such as QR code scanning payment, and introduced featured services in international settlement such as self-service foreign exchange sales, cross-border remittance, inward remittance, international settlement documents and online letters of guarantee. The Bank supported biometric login, QR code login and intelligent customer services, as well as introducing convenient auxiliary functions such as receipt verification, corporate business cards and calendars, so as to continuously improve customer experience.

The Bank continued to improve the functions and channels of its mobile banking for personal customers and facilitated the digital transformation of personal banking. Centring around the key customer groups of credit card, private banking and elderly care, it launched targeted services such as a credit card section, a private banking zone and an Elderly Version for its mobile banking as well as launching "My Ledger", Monthly Bill, and Earnings Report functions in a bid to enhance the value of its products and services, boost sales and stimulate customer activity. The Bank created a superior user experience with a focus on livelihood high-frequency consumer scenarios, and delivered more convenient personal financial services for customers. It continued to expand its overseas service coverage and published versions for the Netherlands and Panama, meaning that its mobile banking services are now available via 30 overseas institutions and in 12 languages and providing services under 17 categories. Newly introduced features included online self-registration for mobile banking, UK exclusively electronic bank statements and online account opening. Furthermore, the Bank enhanced the digital risk control capacity of its online channels and accumulatively monitored 3.752 billion transactions through its "Cyber Defence" smart risk control and prevention system in the first half of 2021, an increase of 35.3% year-on-year. As at 30 June 2021, the Bank had opened accounts for 16.40 million customers through its mobile banking-oriented digitalised authorisation tool, an increase of 35.53% over the beginning of the year.

Offline Channels

The Bank pushed forward the digital transformation of its outlets and continued to enrich its intelligent service ecosystem, in a bid to transform its outlets into integrated marketing and service entities encompassing all channels, scenarios and ecosystems.

The Bank accelerated the digital transformation of its outlets. It deepened cross-border ecosystem development, expanded non-resident service scenarios at smart counters, supported passport-based business handling and launched multilingual services. Closely following the pace of digital reform in government services, the Bank constructed a "government service + financial service" dual-purpose system and successively expanded government affairs scenarios such as social security and tax service at smart counters, by embedding financial services into the building of digital government and smart cities, and it continuously promoted the intelligent outlets operation. The Bank constantly optimised the products and services. The Bank established a bank settlement account system for local and foreign currencies, realised "one-stop" account opening and product contracting, introduced digital debit card issuance and cardless services at smart counters, to improve customer experience. Focusing on the elderly and other key customer groups, the Bank launched an elderly version of smart counters to help the elderly adapt to the digital world and make intelligent financial services more inclusive.

The Bank made fresh innovations in outlet business models. It continued to push forward the categorised management and differentiated development of its outlets by further refining the differentiation of business strategies and resource allocation across different outlets, so as to sharpen their overall competitiveness. It rolled out the "5G Intelligence + Greater Bay Area Pavilion" in Guangdong Province and the "5G Intelligence + Culture and Tourism Pavilion" in Shanxi Province, and built intelligent outlets integrating technology application, service experience, scenario linking and ecosystem integration. Furthermore, the Bank pushed forward the establishment of an outlet scenario ecosystem, built featured outlets based on cross-border, sports, silver economy, education and other scenarios, thus continuously improving the scenario ecosystem chain.

As at 30 June 2021, the Bank's commercial banking network in the Chinese mainland (including Head Office, tier-1 branches, tier-2 branches and outlets) comprised 10,450 branches and outlets. Its comprehensive operation institutions in the Chinese mainland totalled 513, and the number of its institutions in Hong Kong, Macao, Taiwan and other countries and regions totalled 556.

The table below sets forth, as at the dates indicated, the number of the Group's ATMs, smart counters and self-service terminals:

	As at 30 June 2021	As at 31 December 2020	Change
	(single item)		*(%)*
ATM	32,013	33,314	(3.91%)
Smart counter	32,465	31,960	1.58%

Information Technology Development

Taking "deepening technological reform and boosting value creation" as its main task, the Bank fully invested in new "digital infrastructure", enhanced IT empowerment in key business areas, and created new financial service patterns.

The Bank was deeply involved in the building of a digital China. It improved its governance structure by setting up the Financial Digitalisation Committee to push forward the development of the Group's digitalisation, financial technology, data governance, digital business transformation and information risk management system. In line with the Group's strategic development requirements, the Bank accelerated the two milestone projects of enterprise-level architecture building and data governance enhancement. It devoted great efforts to improve its digital capabilities in five areas, namely customer experience enhancement, open sharing of products and services, business process integration and optimisation, intelligent and efficient risk control, and burden alleviation for institutions and employees via IT empowerment, thereby achieving new breakthroughs in the Group's digital transformation.

The Bank made every effort to promote the OASIS project. Pooling Bank-wide efforts and resources, it built an enterprise-level architecture, strived to break down internal silos from the perspective of overall management and integrated planning, and cultivated the key capabilities shared across all products, channels and institutions. It accelerated the building of enterprise-level middle offices for products, operations, risk control and data, and provided strong support for agile responses to customer demands, rapid follow-up on market changes and flexible support for the development of frontline businesses. In the first half of 2021, the Bank finalised the implementation plan for the first phase of its upcoming pilot projects and entered into the substantive development stage.

The Bank deepened research into the application of cutting-edge technologies in financial field. Focusing on core fields such as smart city infrastructure, digital government scenarios, digital financial services and financial product innovation, the Bank established a blockchain platform in cooperation with the blockchain lab of Xiongan New Area, and put it in use for the payment of financial funds for projects in Xiongan New Area. It also achieved preliminary research results in cutting-edge areas such as privacy computing, 6G, and distributed databases. Furthermore, the Bank improved its product innovation management policies, enhanced the quality and efficiency of product lifecycle management, and realised full coverage of product management.

The Bank supported the strategic development pattern of "One Body with Two Wings". Focusing on globalised operations, it established an overseas IT collaboration service mechanism. Leveraging its role as a "strong headquarters", the Bank promoted the use of digital collaboration in the office activities of its overseas institutions and continuously improved IT automation and online IT capabilities. Focusing on comprehensive operations, the Bank established a comprehensive major IT event management mechanism in a coordinated manner, combined corporate governance with IT line management, and steadily promoted the development of products and processes and policies for capacity output.

Major Contracts

Material Custody, Sub-contracts and Leases

In the first half of 2021, the Bank did not take, or allow to subsist any significant custody of, sub-contract or lease assets from other companies, or allow its material business assets to be subject to such arrangements, in each case that is required to be disclosed.

Material Guarantee Business

As approved by PBOC and CBIRC, the Bank's guarantee business is an off-balance sheet item in the ordinary course of its business. The Bank operates the guarantee business in a prudent manner and has formulated specific management measures, operational processes and approval procedures in respect of the risks of guarantee business and carries out this business accordingly. In the first half of 2021, save as disclosed above, the Bank did not enter into or allow to subsist any material guarantee business that is required to be disclosed.

Employees

As at 30 June 2021, the Bank had a total of 305,594 employees. There were 280,265 employees in the Bank's operations of the Chinese Mainland, of which 267,050 worked in the Bank's domestic commercial banking operations. As at 30 June 2021, there were 25,329 employees in the Bank's operations in Hong Kong, Macau, Taiwan and other countries and regions. As at 30 June 2021, the Bank bore costs for a total of 5,041 retirees.

The following table sets forth the total number of employees by geographic distribution as at 30 June 2021:

	Number of employees	per cent. of total
Northern China	61,925	20.26%
Northeastern China	23,831	7.80%
Eastern China	90,696	29.68%
Central and Southern China	66,302	21.70%
Western China	37,511	12.27%
Hong Kong, Macau and Taiwan	17,721	5.80%
Other countries and regions	7,608	2.49%
Total	305,594	100.00%

Intellectual Property

The Bank owns various intellectual property rights including trademarks, patents, domain names, and copyrights. The Bank conducts business under the “Bank of China”, “BOC”, “中國銀行”, “中銀”, “中行” and “”, and other brand names and logos.

DESCRIPTION OF THE GUARANTOR

The Guarantor is a branch of the Bank established in Macau. The Guarantor first opened its office in Macau in 1950, formerly named "Banco Nam Tung", which was then renamed to "Bank of China Limited" in 1987 and became the 9th overseas branch of the Bank. The Guarantor holds a full banking licence and provides corporate banking, personal banking and related financial services in Macau. In recent years, the Guarantor has also expanded its business in investment banking, structural financing and comprehensive cross-border banking services in order to provide better internationalised professional services for its customers.

The Guarantor has upheld the principle of "Rooted in Macau, Steadfast in Serving" for over seventy years and has become a mainstream bank in Macau. As an important financial partner of the Macau SAR Government, the Guarantor acts as one of the two note-issuing banks, the agent bank for the Public Treasury, the MOP and RMB RTGS settlement bank, and the clearing bank for HKD, USD and RMB. The Guarantor also serves as the Chairman of the Macau Association of Banks. The Guarantor is licensed by the Monetary Authority of Macao (AMCM) (in Portuguese, Autoridade Monetária de Macau) and is subject to its regulation and supervision.

RISK MANAGEMENT

The Group's primary risk management objectives are to maximise value for equity holders while maintaining risk within acceptable parameters, optimising capital allocation and satisfying the requirements of the regulatory authorities, the Group's depositors and other stakeholders for the Group's prudent and stable development.

The Bank continued to improve its risk management system in line with the Group's strategies. Facing a challenging and complex external environment, the Bank intensified efforts to improve its comprehensive risk management system, further refined and upgraded the system in terms of governance structure, management mechanism, management process, management tools and management foundations, thus ensuring the sustainable and robust operation of the Group. Anticipating how risk management will develop over the next three to five years, the Bank formulated the Group's 14th Five-Year risk management plan, which comprehensively charts a blueprint for the Group's risk management development, including proposed actions and measures. In addition, it further implemented Basel III and international interest rate benchmark reform, and continued to enhance its refined risk management capability. The Bank also improved the risk management system for its comprehensive operation subsidiaries and continuously strengthened risk management requirements for its overseas institutions. It also improved mechanisms for pandemic response and major risk reporting, and ensured business continuity. Furthermore, the Bank accelerated the digital transformation of risk management, proactively established an online "toolbox" for business models and a "safety valve" for risk evaluation, and advanced the building of a multi-tiered smart risk control and early warning system, thus increasing the levels of its smart risk management. It remained constantly mindful of worst-case scenarios and conducted in-depth investigation of the major potential risks arising from varying aspects of its institutions, businesses, products and customers. It also took an active role in carrying out special campaigns on risk culture, as a way to continuously improve the risk awareness of all employees.

The most significant types of risk to the Group are credit risk, market risk and liquidity risk. Market risk includes interest rate risk, currency risk, and other price risk.

Risk Management Framework

The Board of Directors is responsible for establishing the overall risk appetite of the Group and reviewing and approving the risk management objectives and strategies.

Within this framework, the Group's senior management has overall responsibility for managing all aspects of risks, including implementing risk management strategies, initiatives and credit policies and approving internal policies, measures and procedures related to risk management. The Risk Management Department, the Credit Management Department, the Financial Management Department and other relevant functional departments are responsible for monitoring financial risks.

The Group manages the risks at the branch level through direct reporting from the branches to the relevant departments responsible for risk management at the Head Office. Business line related risks are monitored through establishing specific risk management teams within the business departments. The Group monitors and controls risk management at subsidiaries by appointing members of the Board of Directors and risk management committees as appropriate.

Credit Risk Management

The Group takes on exposure to credit risk, which is the risk that a customer or counterparty will cause a financial loss for the Group by failing to discharge an obligation. Credit risk is one of the most significant risks for the Group's business.

Credit risk exposures arise principally in lending activities and debt securities investment activities. There is also credit risk in off-balance sheet financial instruments, such as derivatives, loan commitments, bill acceptance, letters of guarantee and letters of credit.

Closely tracking changes in macroeconomic and financial conditions as well as regulatory requirements, the Bank improved its management mechanisms, adjusted its structure, and controlled and mitigated credit risks. In addition, the Bank strengthened credit asset quality management, further improved its credit risk management policies and pushed forward the optimisation of its credit structure. It also held fast to the risk compliance bottom line and took a proactive and forward-looking stance towards the continual improvement of its credit risk management.

Taking a customer-centric approach, the Bank further strengthened its unified credit granting management and enhanced full-scope centralised credit risk management. The Bank further improved its long-acting credit management mechanism and asset quality monitoring system and further enhanced potential risk identification, control and mitigation mechanisms by intensifying post-lending management and reinforcing customer concentration management and control. The Bank enhanced the supervision of risk analysis and asset quality control in key regions and strengthened window guidance on all business lines. In order to effectively strengthen the management and control of customer concentration risk, the Bank constructed the management policies of large exposures, which specified the management structure, working process and measurement rules, etc.

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

In terms of corporate banking, the Bank further strengthened risk identification and control, proactively reduced and exited credit relationships in key fields, strictly controlled the gross outstanding amount and use of loans through limit management and prevented and mitigated risk from overcapacity industries. It intensified the management of loans to LGFVs and strictly controlled the outstanding balances. In addition, the Bank implemented the government's macro-control policies and regulatory measures in the real estate sector so as to strengthen the risk management of real estate loans. In terms of personal banking, the Bank improved unified credit granting management for personal customers and revised management policies for unsecured start-up loans, small-amount loans for poverty alleviation, and loans mortgaged against rural contracted land management rights or farmers' housing property rights, thus supporting the development of its inclusive finance business. It kept improving management policies for personal online loans and credit card overdrafts, in order to prevent the risks of excessive credit and cross-infection. The Bank enforced regulatory requirements and continued to strictly implement differentiated policies on residential mortgages. It also strengthened the risk control of key products and regions.

The Bank further stepped up the collection of non-performing assets ("**NPAs**"). It re-allocated internal and external collection resources and continued to adopt centralised and tiered management of NPA projects. It reinforced the supervision of key regions and key projects, in order to improve the quality and efficiency of disposals. The Bank proactively explored the application of "Internet Plus" in NPA collection and diversified its disposal channels. In addition, it adopted policies based on the actual conditions of individual enterprises and took multiple measures where necessary. It gave full play to the role of creditor committee and enhanced the application of debt-for-equity swaps and restructuring efforts to help enterprises get out of difficulties, with the aim of realising mutual benefit for the Bank and the enterprises, and to support the real economy.

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

As at 30 June 2021, the Group's NPLs[1] totalled RMB200.348 billion, representing a decrease of RMB6.925 billion compared with the prior year-end. The NPL ratio was 1.30 per cent., down 0.16 percentage point compared with the prior year-end. The Group's allowance for impairment losses on loans and advances (including allowance for loans at amortised cost and allowance for loans at fair value through other comprehensive income) was RMB369.168 billion, an increase of RMB0.549 billion compared with the prior year-end. The coverage ratio of allowance for loan impairment losses to NPLs was 184.26 per cent.

The Group identifies credit risk collectively based on industry, geography and customer type. This information is monitored regularly by the management.

The following table sets forth, at the dates indicated, the Group's loans and advances to customers categorised by geographical area:

	As at 30 June		As at 31 December					
	2021		2020		2019		2018	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(RMB million, except percentages)							
Chinese Mainland	12,407,949	80.67	11,501,791	81.09	10,302,408	79.04	9,273,549	78.67
Hong Kong, Macau and Taiwan	1,931,922	12.56	1,697,934	11.97	1,697,434	13.02	1,515,844	12.86
Other countries and regions	1,041,617	6.77	983,660	6.94	1,034,347	7.94	998,290	8.47
Total loans and advances to customers	15,381,488	100.00	14,183,385	100.00	13,034,189	100.00	11,787,683	100.00

[1] The loans and advances to customers in this section are exclusive of accrued interest.

The following table sets forth, at the dates indicated, the Group's loans and advances to customers categorised by industry sectors of the borrowers:

	As at 30 June		As at 31 December					
	2021		2020		2019		2018	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(RMB million, except percentages)							
Corporate loans and advances								
Commerce and services	1,992,248	12.95	1,764,213	12.44	1,706,650	13.09	1,516,354	12.86
Manufacturing	1,855,136	12.06	1,692,261	11.93	1,679,202	12.88	1,674,340	14.21
Transportation, storage and postal services	1,653,269	10.75	1,493,828	10.53	1,294,922	9.93	1,182,411	10.03
Real estate	1,214,090	7.89	1,137,469	8.02	1,042,664	8.00	915,793	7.77
Production and supply of electricity, heating, gas and water	778,023	5.06	726,824	5.13	649,289	4.98	648,849	5.50
Financial services	794,154	5.16	646,979	4.56	565,333	4.34	398,478	3.38
Mining	273,420	1.78	282,394	1.99	293,375	2.25	320,369	2.72
Construction	315,224	2.05	268,676	1.89	255,160	1.96	239,397	2.03
Water, environment and public utility management	277,614	1.80	250,551	1.77	199,376	1.53	167,811	1.42
Public utilities	164,750	1.07	161,402	1.14	149,855	1.15	125,917	1.07
Other	145,011	0.95	175,493	1.24	150,554	1.16	157,879	1.34
Subtotal	9,462,939	61.52	8,600,090	60.64	7,986,380	61.27	7,347,598	62.33
Personal loans								
Mortgages	4,605,752	29.94	4,418,761	31.15	3,993,271	30.64	3,503,563	29.72
Credit cards	502,559	3.27	498,435	3.51	476,743	3.66	426,338	3.62
Other	810,238	5.27	666,099	4.70	577,795	4.43	510,184	4.33
Subtotal	5,918,549	38.48	5,583,295	39.36	5,047,809	38.73	4,440,085	37.67
Total loans and advances to customers	15,381,488	100.00	14,183,385	100.00	13,034,189	100.00	11,787,683	100.00

The table below sets forth, as at the dates indicated, the Group's loan concentration by asset quality categories.

	As at 30 June		As at 31 December					
	2021		2020		2019		2018	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(RMB million, except percentages)							
Pass	14,945,790	97.17	13,711,518	96.67	12,566,640	96.41	11,278,379	95.68
Special-mention	235,350	1.53	264,594	1.87	289,314	2.22	342,363	2.90
Substandard	90,403	0.59	125,118	0.88	77,459	0.59	49,788	0.42
Doubtful	28,086	0.18	33,823	0.24	51,804	0.40	49,341	0.42
Loss	81,859	0.53	48,332	0.34	48,972	0.38	67,812	0.58
Total	15,381,488	100.00	14,183,385	100.00	13,034,189	100.00	11,787,683	100.00
Non-performing Loans(1)	200,348	1.30	207,273	1.46	178,235	1.37	166,941	1.42

Note:

(1) Non-performing loans refer to loans classified as substandard, doubtful and loss.

In accordance with IFRS 9, the Bank assesses expected credit losses with forward-looking information and makes relevant allowances. In particular, it makes allowances for assets classified as stage 1 and assets classified as stage 2 and stage 3 according to the expected credit losses over 12 months and the expected credit losses over the entire lifetime of the asset, respectively. As at 30 June 2021, the Group's stage 1, stage 2 and stage 3 loans totalled RMB14,865.529 billion, RMB311.446 billion and RMB200.348 billion respectively, accounting for 96.67 per cent., 2.03 per cent. and 1.30 per cent. of total loans respectively. In the first half of 2021, the Group's impairment losses on loans amounted to RMB47.750 billion, a decrease of RMB12.978 billion compared with the same period of the prior year. Credit cost accounted for 0.65 per cent., a decrease of 0.25 percentage point compared with the same period of the prior year.

The Bank continued to focus on controlling borrower concentration risk and was in full compliance with regulatory requirements on borrower concentration. The following table sets forth, as at the dates indicated, the impaired loans and advances of the Group categorised by geographical area:

	As at 30 June			As at 31 December								
	2021			2020			2019			2018		
	Amount	% of total	Impaired loan ratio (per cent.)	Amount	% of total	Impaired loan ratio (per cent.)	Amount	% of total	Impaired loan ratio (per cent.)	Amount	% of total	Impaired loan ratio (per cent.)
	(RMB million, except percentages and ratios)											
Chinese Mainland	179,082	89.39	1.44	189,985	91.66	1.65	169,951	95.35	1.65	162,778	97.50	1.76
Hong Kong, Macau and Taiwan	5,895	2.94	0.31	4,674	2.25	0.28	3,842	2.16	0.23	2,720	1.63	0.18
Other countries and regions	15,371	7.67	1.48	12,614	6.09	1.28	4,442	2.49	0.43	1,454	0.87	0.15
Total	200,348	100.00	1.30	207,273	100.00	1.46	178,235	100.00	1.37	166,952	100.00	1.42

The following table sets forth, as at the dates indicated, the impaired loans and advances of the Group categorised by customer type:

	As at 30 June			As at 31 December								
	2021			2020			2019			2018		
	Amount	% of total	Impaired loan ratio (per cent.)	Amount	% of total	Impaired loan ratio (per cent.)	Amount	% of total	Impaired loan ratio (per cent.)	Amount	% of total	Impaired loan ratio (per cent.)
	(RMB million, except percentages and ratios)											
Corporate loans and advances	169,116	84.41	1.79	174,012	83.95	2.02	149,427	83.84	1.87	139,108	83.32	1.89
Personal loans	31,232	15.59	0.53	33,261	16.05	0.60	28,808	16.16	0.57	27,844	16.68	0.63
Total	200,348	100.00	1.30	207,273	100.00	1.46	178,235	100.00	1.37	166,952	100.00	1.42

Market Risk Management

The Group is exposed to market risks from its on-balance and off-balance business, that may cause losses to the Group as a result of adverse changes in market prices of interest rate, exchange rate, equities and commodities. Market risk arises from open positions in the trading and banking books. Both the Group's trading book and banking book face market risks. The trading book consists of positions in financial instruments and commodities that are held with trading intent or in order to hedge other elements of the trading book. The banking book consists of financial instruments not included in the trading book (including those financial instruments purchased with surplus funds and managed in the investment book).

The Board of Directors takes ultimate responsibility for the oversight of market risk management, including the approval of market risk management policies and procedures and the determination of market risk tolerance. Senior management is responsible for execution of such policies and ensuring that the level of market risk is within the risk appetite determined by the Board, while meeting the Group's business objectives.

Market risk management departments are responsible for the identification, measurement, monitoring, control and reporting of market risks on a Group basis. Business units are responsible for monitoring and reporting of market risk within their respective business lines.

In response to changes in the market environment, business development and management requirements, the Bank continued to refine its market risk management system in order to effectively control market risk.

The Bank actively adapted to changes in its business and the market by improving its market risk appetite transmission mechanism and refining its model for the market risk limit management of the Group. To further improve counterparty credit risk management procedures of counterparties and improve its risk warning and mitigation capabilities, the Bank conducted forward-looking research and judgement regarding market risks and cross-financial risks. The Bank enhanced the accuracy of its risk management and improved its risk quantification capability by continuously advancing the construction of its market risk data mart and management system, and by studying and applying advanced risk measurement approaches.

The Bank strengthened risk management of the Group's bond investments by closely tracking market volatility and changes in regulatory policy. Based on the market and business needs, it has shortened its response time to risks and made timely adjustments and refinements to its investment policies. In response to high default rates in the bond market, the Bank has improved the effectiveness of risk inspections and strengthened risk management and control in major areas.

Management of Interest Rate Risk in the Banking Book

The Bank assessed the interest rate risk in its banking book mainly through analysis of interest rate re-pricing gaps, made timely adjustments to the structure of its assets and liabilities based on changes in the market situation, and controlled the fluctuation of net interest income within an acceptable level.

For the purpose of market risk management in the trading book, the Group monitors trading book Value at Risk ("**VaR**") limits, stress testing results and exposure limits and tracks each trading desk and dealer's observance of each limit on a daily basis.

VaR is used to estimate the largest potential loss arising from adverse market movements in a specific holding period and within a certain confidence level.

VaR is performed separately by the Bank and its major subsidiaries that are exposed to market risk, BOCHK (Holdings) and BOC International. The Bank, BOCHK (Holdings) and BOC International used a 99 per cent. level of confidence (therefore 1 per cent. statistical probability that actual losses could be greater than the VaR estimate) and a historical simulation model to calculate the VaR estimate. The holding period of the VaR calculations is one day. To enhance the Group's market risk management, the Group has established the market risk data mart, which enabled a group level trading book VaR calculation on a daily basis.

Accuracy and reliability of the VaR model is verified by daily back-testing on the VaR results in the trading book. The back-testing results are regularly reported to senior management.

The Group utilises stress testing as an effective supplement to the trading book VaR analysis. Stress testing scenarios are performed based on the characteristics of trading transactions to simulate and estimate losses in adverse and exceptional market conditions. To address changes in the financial markets, the Group enhances its market risk identification capabilities by continuously modifying and improving the trading book stress testing scenarios and measurement methodologies in order to capture the potential impact on transaction market prices stemming from changes in market prices and volatility.

For the six months ended 30 June 2021 and 2020, and years ended 31 December 2020, 2019 and 2018, the VaR of the Bank's trading book by type of risk was as follows:

The Bank's VaR for Trading Book

	For the six months ended 30 June						For the year ended 31 December								
	2021			2020			2020			2019			2018		
	Average	High	Low	Average	High	Low	Average	High	Low	Average	High	Low	Average	High	Low
	(U.S.$ million)														
Interest rate risk	15.10	18.03	11.24	14.05	17.87	9.40	13.45	17.87	9.17	18.70	23.50	13.24	17.26	23.85	12.24
Foreign exchange risk	28.13	41.51	9.75	24.01	35.33	11.83	26.61	39.35	11.83	18.00	26.69	9.80	10.19	17.66	4.99
Volatility risk	5.31	11.41	1.31	0.75	1.95	0.18	2.18	6.45	0.18	0.44	2.27	0.17	0.38	0.71	0.11
Commodity risk	5.25	10.77	0.82	6.63	13.76	3.04	6.35	13.76	3.04	1.77	6.26	0.75	1.14	5.55	0.13
Total of the Bank's trading VaR	35.45	48.83	19.49	27.74	38.68	16.18	29.56	38.72	16.18	23.03	29.56	17.11	19.87	26.28	13.92

The banking book is exposed to interest rate risk arising from mismatches in maturities, repricing periods and inconsistent adjustments between the benchmark interest rates of assets and liabilities. The Group assesses interest rate risk in the banking book primarily through an interest rate repricing gap analysis.

The Group conducts a substantial portion of its business in RMB, with certain transactions denominated in USD, HKD and, to a much lesser extent, other currencies. The major subsidiary, BOCHK Group, conducts the majority of its business in HKD, RMB and USD. The Group endeavours to manage its sources and uses of foreign currencies to minimise potential mismatches in accordance with management directives.

The Bank manages its exposure to currency exchange risk through management of its net foreign currency position and monitors its foreign currency risk on trading books using VaR.

The tables below summarise the Group's exposure to foreign currency exchange rate risk as at 30 June 2021 and 31 December 2020, 2019 and 2018:

	As at 30 June 2021							
	RMB	**USD**	**HKD**	**EURO**	**JPY**	**GBP**	**Other**	**Total**
				(RMB million)				
Assets								
Cash and due from banks and other financial institutions	449,885	176,175	25,954	32,969	6,721	9,558	23,649	724,911
Balances with central banks	1,598,182	256,145	133,889	116,209	33,343	59,182	57,747	2,254,697
Placements with and loans to banks and other financial institutions	652,906	568,012	82,622	14,901	351	1,629	51,240	1,371,661
Derivative financial assets	60,771	31,867	3,251	1,238	1,475	7,206	10,432	116,240
Loans and advances to customers, net	11,969,865	1,230,294	1,193,139	234,181	9,433	70,435	340,367	15,047,714
Financial investments								
– financial assets at fair value through profit or loss	372,213	52,578	78,135	6,771	830	14	42	510,583
– financial assets at fair value through other comprehensive income	1,294,442	442,500	182,976	29,221	137,024	4,011	84,808	2,174,982
– financial assets at amortised cost	2,823,342	256,847	3,749	9,250	5,591	3,846	33,330	3,135,955
Other	321,633	197,815	223,658	3,961	1,453	3,429	228,635	980,584
Total assets	19,543,239	3,212,233	1,927,373	448,701	196,221	159,310	830,250	26,317,327
Liabilities								
Due to banks and other financial institutions	1,470,478	532,080	44,892	55,714	13,597	10,856	232,724	2,360,341
Due to central banks	829,935	40,511	5,236	14,205	–	90	5,847	895,824
Placements from banks and other financial institutions	198,083	261,015	7,757	22,194	6,536	2,105	2,319	500,009
Derivative financial liabilities	73,492	30,532	1,905	1,531	833	6,090	7,177	121,560
Due to customers	13,823,993	1,766,220	1,752,138	291,291	55,597	59,914	478,618	18,227,771
Bonds issued	1,042,498	211,377	3,877	30,474	1,753	259	11,323	1,301,561
Other	261,835	120,123	269,769	7,921	344	2,157	17,764	679,913
Total liabilities	17,700,314	2,961,858	2,085,574	423,330	78,660	81,471	755,772	24,086,979
Net on-balance sheet position	1,842,925	250,375	(158,201)	25,371	117,561	77,839	74,478	2,230,348
Net off-balance sheet position	(21,660)	(134,422)	389,904	(11,508)	(116,300)	(74,655)	(25,356)	6,003
Credit commitments	3,405,093	782,059	253,190	143,987	8,945	55,495	104,937	4,753,706

	As at 31 December 2020							
	RMB	USD	HKD	EURO	JPY	GBP	Other	Total
	(RMB million)							
Assets								
Cash and due from banks and other financial institutions	548,932	132,751	20,782	61,642	7,101	4,215	27,722	803,145
Balances with central banks	1,500,346	316,938	61,418	81,789	30,084	44,252	42,013	2,076,840
Placements with and loans to banks and other financial institutions	555,349	298,944	22,861	18,663	478	940	42,085	939,320
Derivative financial assets	97,475	44,134	3,479	738	987	9,344	15,581	171,738
Loans and advances to customers, net	11,024,110	1,106,377	1,010,120	258,468	11,076	62,829	375,324	13,848,304
Financial investments								
– financial assets at fair value through profit or loss	363,018	51,870	82,795	6,476	316	23	51	504,549
– financial assets at fair value through other comprehensive income	1,280,223	449,963	127,357	31,950	130,392	2,851	85,054	2,107,790
– financial assets at amortised cost	2,723,069	199,575	2,370	9,628	6,065	3,993	34,078	2,978,778
Other	317,767	183,732	219,734	2,466	1,417	2,346	244,733	972,195
Total assets	18,410,289	2,784,284	1,550,916	471,820	187,916	130,793	866,641	24,402,659
Liabilities								
Due to banks and other financial institutions	1,035,286	539,174	43,097	43,770	14,301	10,988	230,387	1,917,003
Due to central banks	576,601	277,062	12,918	13,487	–	341	7,402	887,811
Placements from banks and other financial institutions	137,784	215,247	13,729	28,757	12,204	2,247	1,981	411,949
Derivative financial liabilities	139,398	46,493	4,474	947	874	9,720	10,146	212,052
Due to customers	13,003,027	1,651,454	1,318,279	306,229	50,656	72,230	477,296	16,879,171
Bonds issued	968,665	218,950	8,617	31,980	1,896	311	13,984	1,244,403
Other	293,844	105,317	267,904	3,207	300	1,109	15,752	687,433
Total liabilities	16,154,605	3,053,697	1,669,018	428,377	80,231	96,946	756,948	22,239,822
Net on-balance sheet position	2,255,684	(269,413)	(118,102)	43,443	107,685	33,847	109,693	2,162,837
Net off-balance sheet position	(541,681)	392,537	347,658	(31,366)	(107,293)	(32,709)	(50,662)	(23,516)
Credit commitments	3,160,861	761,848	255,166	142,505	10,679	52,715	107,899	4,491,673

	As at 31 December 2019							
	RMB	USD	HKD	EURO	JPY	GBP	Other	Total
	(RMB million)							
Assets								
Cash and due from banks and other financial institutions	370,569	140,513	18,368	10,977	7,833	1,691	15,516	565,467
Balances with central banks	1,583,469	265,682	57,599	59,456	49,422	34,133	29,048	2,078,809
Placements with and loans to banks and other financial institutions	652,817	149,463	33,441	6,050	141	2,435	54,612	898,959
Derivative financial assets	42,558	13,694	26,586	446	20	6,348	3,683	93,335
Loans and advances to customers, net	9,870,244	1,170,630	1,027,104	250,730	11,194	69,423	344,100	12,743,425
Financial investments								
– financial assets at fair value through profit or loss	346,644	78,848	83,199	2,540	6,925	16	78	518,250
– financial assets at fair value through other comprehensive income	1,354,391	489,432	150,486	32,292	103,797	2,610	85,121	2,218,129
– financial assets at amortised cost	2,525,349	219,495	3,319	4,802	770	954	22,994	2,777,683
Other	268,436	162,203	198,398	1,357	1,465	2,691	241,137	875,687
Total assets	17,014,477	2,689,960	1,598,500	368,650	181,567	120,301	796,289	22,769,744
Liabilities								
Due to banks and other financial institutions	1,009,086	391,869	27,167	43,826	21,193	7,374	167,531	1,668,046
Due to central banks	570,675	247,096	19,979	5,920	–	258	2,349	846,277
Placements from banks and other financial institutions	298,497	213,662	76,294	17,161	25,330	3,745	4,986	639,675
Derivative financial liabilities	36,135	19,811	22,813	707	52	6,112	4,430	90,060
Due to customers	11,925,923	1,836,997	1,255,663	254,485	56,683	55,672	432,125	15,817,548
Bonds issued	766,816	258,893	11,868	38,794	1,920	2,744	15,052	1,096,087
Other	254,949	91,825	267,607	3,131	351	1,863	15,629	635,355
Total liabilities	14,862,081	3,060,153	1,681,391	364,024	105,529	77,768	642,102	20,793,048
Net on-balance sheet position	2,152,396	(370,193)	(82,891)	4,626	76,038	42,533	154,187	1,976,696
Net off-balance sheet position	(463,297)	378,515	283,483	5,828	(75,754)	(40,620)	(74,643)	13,512
Credit commitments	2,959,323	836,835	257,229	124,696	9,841	49,401	105,245	4,342,570

	As at 31 December 2018							
	RMB	USD	HKD	EURO	JPY	GBP	Other	Total
	(RMB million)							
Assets								
Cash and due from banks and other financial institutions	308,697	79,058	17,818	6,442	5,694	1,575	20,647	439,931
Balances with central banks	1,855,438	280,029	40,625	39,770	36,838	47,950	30,403	2,331,053
Placements with and loans to banks and other financial institutions	878,861	93,903	30,994	7,636	3,094	283	27,587	1,042,358
Derivative financial assets	67,601	17,913	29,945	621	37	5,237	2,772	124,126
Loans and advances to customers, net	8,830,692	1,146,207	923,070	201,731	12,637	65,563	335,864	11,515,764
Financial investments								
– financial assets at fair value through profit or loss	238,495	56,988	72,981	2,011	–	16	–	370,491
– financial assets at fair value through other comprehensive income	1,191,739	453,918	116,376	30,629	8,573	3,023	75,501	1,879,759
– financial assets at amortised cost	2,548,402	229,300	3,496	3,450	746	1,456	17,451	2,804,301
Other	213,438	148,481	185,113	568	1,244	2,097	208,551	759,492
Total assets	16,133,363	2,505,797	1,420,418	292,858	68,863	127,200	718,776	21,267,275
Liabilities								
Due to banks and other financial institutions	1,060,308	404,757	34,551	40,090	14,270	7,049	170,184	1,731,209
Due to central banks	628,327	246,540	26,758	5,461	–	434	1	907,521
Placements from banks and other financial institutions	266,692	271,303	39,642	12,669	11,242	5,411	5,308	612,267
Derivative financial liabilities	50,554	14,104	26,366	678	46	5,059	2,447	99,254
Due to customers	11,256,454	1,716,821	1,202,357	194,439	58,478	46,334	408,713	14,883,596
Bonds issued	447,679	252,059	6,682	48,465	1,852	9,793	15,597	782,127
Other	191,501	84,330	230,918	2,327	480	1,323	15,025	525,904
Total liabilities	13,901,515	2,989,914	1,567,274	304,129	86,368	75,403	617,275	19,541,878
Net on-balance sheet position	2,231,848	(484,117)	(146,856)	(11,271)	(17,505)	51,797	101,501	1,725,397
Net off-balance sheet position	(795,575)	520,806	355,983	21,144	19,415	(49,526)	(40,626)	31,621
Credit commitments	2,715,693	794,823	223,494	111,092	10,425	44,054	93,430	3,993,011

Liquidity Risk Management

Liquidity risk is the risk that the Bank fails to timely acquire adequate funds at a reasonable cost to deal with repayments of debts at maturity, perform other payment obligations and meet other fund needs for normal business operation.

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

The Bank considers liquidity risk management a significant component of asset-liability management, and determines the size, structure and duration of assets and liabilities consistent with the principle of overall balance between assets and liabilities. The Bank establishes its liquidity portfolio to mitigate liquidity risk, and to minimise the gaps in the amount and duration between the funding sources and the uses of funds. The Group refines its financing strategy, taking into consideration various factors including customer risk sensitivity, financing cost and concentration of funding sources. In addition, the Group prioritises the development of customer deposits, dynamically adjusts the structure of fund sources by market-oriented financing modes, including due to banks and other financial institutions, inter-bank borrowings and improves the diversity and stability of financing sources.

Seeking at all times to balance safety, liquidity and profitability, and following regulatory requirements, the Bank has improved its liquidity risk management system and upgraded its liquidity management function in a forward-looking and scientific manner. The Bank enhanced liquidity risk management at both Group and branch levels. It formulated sound liquidity risk management policies and contingency plans, periodically re-examined the liquidity risk limit, upgraded the early warning system for liquidity risk and strengthened the management of high-quality liquid assets, such as bond investments, in order to strike a balance between risk and return. In addition, the Bank regularly improved the liquidity stress-testing plan and performed stress tests on a quarterly basis. The results of stress testing showed that the Bank had adequate payment capability to address distressed scenarios.

The tables below analyse the Group's assets and liabilities into relevant maturity groupings based on the remaining period at the financial reporting date to the contractual maturity date:

	As at 30 June 2021							
	Overdue/ Undated	**On demand**	**Less than 1 month**	**Between 1 and 3 months**	**Between 3 and 12 months**	**Between 1 and 5 years**	**Over 5 years**	**Total**
	(RMB million)							
Assets								
Cash and due from banks and other financial institutions	–	259,583	283,687	49,841	127,146	4,654	–	724,911
Balances with central banks	1,573,768	578,568	83,586	11,593	6,216	966	–	2,254,697
Placements with and loans to banks and other financial institutions	275	–	813,459	114,785	360,823	82,319	–	1,371,661
Derivative financial assets	–	11,280	21,483	24,671	27,285	24,438	7,083	116,240
Loans and advances to customers, net	41,616	274,435	632,946	816,003	3,271,736	4,213,613	5,797,365	15,047,714
Financial investments								
– financial assets at fair value through profit or loss	172,423	–	18,988	35,061	83,093	42,332	158,686	510,583
– financial assets at fair value through other comprehensive income	24,759	–	132,128	223,962	351,855	974,969	467,309	2,174,982
– financial assets at amortised cost	3,064	–	62,880	68,400	281,328	1,533,231	1,187,052	3,135,955
Other	365,707	444,794	33,719	10,210	21,907	72,766	31,481	980,584
Total assets	2,181,612	1,568,660	2,082,876	1,354,526	4,531,389	6,949,288	7,648,976	26,317,327

	As at 30 June 2021							
	Overdue/ Undated	On demand	Less than 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	Over 5 years	Total
	(RMB million)							
Liabilities								
Due to banks and other financial institutions	–	1,392,475	136,858	199,515	617,551	13,942	–	2,360,341
Due to central banks	–	42,544	34,842	90,975	703,369	24,094	–	895,824
Placements from banks and other financial institutions	–	–	388,131	64,477	44,692	2,553	156	500,009
Derivative financial liabilities	–	7,729	20,103	29,272	29,677	26,379	8,400	121,560
Due to customers	–	9,160,103	1,746,678	1,380,821	2,833,302	3,106,401	466	18,227,771
Bonds issued	–	–	66,718	119,946	552,951	504,448	57,498	1,301,561
Other	–	333,758	60,148	9,965	81,454	109,247	85,341	679,913
Total liabilities	–	10,936,609	2,453,478	1,894,971	4,862,996	3,787,064	151,861	24,086,979
Net liquidity gap	2,181,612	(9,367,949)	(370,602)	(540,445)	(331,607)	3,162,224	7,497,115	2,230,348

	As at 31 December 2020							
	Overdue/ Undated	On demand	Less than 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	Over 5 years	Total
	(RMB million)							
Assets								
Cash and due from banks and other financial institutions	21	286,447	265,996	93,556	154,008	3,117	–	803,145
Balances with central banks	1,452,254	549,551	39,355	5,709	28,669	1,302	–	2,076,840
Placements with and loans to banks and other financial institutions	377	–	397,698	154,029	286,481	100,735	–	939,320
Derivative financial assets	–	13,312	22,621	31,423	62,752	31,551	10,079	171,738
Loans and advances to customers, net	46,580	191,481	435,364	1,288,350	2,778,252	3,744,008	5,364,269	13,848,304
Financial investments								
– financial assets at fair value through profit or loss	154,836	–	10,521	47,105	77,423	44,679	169,985	504,549
– financial assets at fair value through other comprehensive income	23,481	–	137,987	217,198	284,963	973,389	470,772	2,107,790
– financial assets at amortised cost	2,805	–	50,431	80,052	358,189	1,443,948	1,043,353	2,978,778
Other	356,200	454,701	19,792	17,044	19,930	75,503	29,025	972,195
Total assets	2,036,554	1,495,492	1,379,765	1,934,466	4,050,667	6,418,232	7,087,483	24,402,659
Liabilities								
Due to banks and other financial institutions	–	1,351,541	70,855	271,019	217,441	6,056	91	1,917,003
Due to central banks	–	216,844	79,518	117,114	434,833	39,502	–	887,811
Placements from banks and other financial institutions	–	–	244,199	100,330	62,324	4,940	156	411,949
Derivative financial liabilities	–	9,479	24,395	34,122	95,255	35,127	13,674	212,052
Due to customers	–	8,521,036	1,528,697	1,354,270	2,596,276	2,871,178	7,714	16,879,171
Bonds issued	–	–	67,004	186,305	461,388	470,415	59,291	1,244,403
Other	–	329,254	58,677	15,215	112,493	95,681	76,113	687,433
Total liabilities	–	10,428,154	2,073,345	2,078,375	3,980,010	3,522,899	157,039	22,239,822
Net liquidity gap	2,036,554	(8,932,662)	(693,580)	(143,909)	70,657	2,895,333	6,930,444	2,162,837

	As at 31 December 2019							
	Overdue/ Undated	**On demand**	**Less than 1 month**	**Between 1 and 3 months**	**Between 3 and 12 months**	**Between 1 and 5 years**	**Over 5 years**	**Total**
				(RMB million)				
Assets								
Cash and due from banks and other financial institutions	21	204,121	183,170	55,805	119,376	2,845	129	565,467
Balances with central banks	1,513,473	527,657	16,242	8,293	12,441	703	–	2,078,809
Placements with and loans to banks and other financial institutions	44	–	417,352	185,843	241,024	54,696	–	898,959
Derivative financial assets	–	10,697	14,983	20,855	24,869	16,610	5,321	93,335
Loans and advances to customers, net	51,073	188,916	458,233	1,216,882	2,716,777	3,221,650	4,889,894	12,743,425
Financial investments								
– financial assets at fair value through profit or loss	143,255	–	16,394	49,949	98,245	58,537	151,870	518,250
– financial assets at fair value through other comprehensive income	22,067	–	142,122	234,297	396,998	912,932	509,713	2,218,129
– financial assets at amortised cost	1,767	–	35,141	53,375	506,346	1,337,456	843,598	2,777,683
Other	345,309	381,978	24,301	12,827	23,308	60,436	27,528	875,687
Total assets	2,077,009	1,313,369	1,307,938	1,838,126	4,139,384	5,665,865	6,428,053	22,769,744
Liabilities								
Due to banks and other financial institutions	–	1,036,810	125,011	324,062	175,301	6,779	83	1,668,046
Due to central banks	–	180,113	70,832	72,898	518,864	3,570	–	846,277
Placements from banks and other financial institutions	–	–	492,657	70,924	69,694	6,386	14	639,675
Derivative financial liabilities	–	8,780	11,165	15,936	26,652	20,482	7,045	90,060
Due to customers	–	7,843,084	1,541,342	1,540,159	2,541,528	2,343,527	7,908	15,817,548
Bonds issued	–	–	23,985	150,073	416,192	470,942	34,895	1,096,087
Other	–	280,526	53,662	12,895	121,693	92,907	73,672	635,355
Total liabilities	–	9,349,313	2,318,654	2,186,947	3,869,924	2,944,593	123,617	20,793,048
Net liquidity gap	2,077,009	(8,035,944)	(1,010,716)	(348,821)	269,460	2,721,272	6,304,436	1,976,696

	As at 31 December 2018							
	Overdue/ Undated	On demand	Less than 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	Over 5 years	Total
				(RMB million)				
Assets								
Cash and due from banks and other financial institutions	21	178,645	110,908	30,365	116,636	3,356	–	439,931
Balances with central banks	1,588,770	511,244	216,281	2,087	12,329	342	–	2,331,053
Placements with and loans to banks and other financial institutions	44	–	659,399	92,855	231,633	58,427	–	1,042,358
Derivative financial assets	–	10,055	22,259	30,528	38,686	18,634	3,964	124,126
Loans and advances to customers, net	69,539	154,707	397,574	1,086,838	2,478,055	3,036,778	4,292,273	11,515,764
Financial investments								
– financial assets at fair value through profit or loss	93,524	–	16,772	32,788	71,133	52,863	103,411	370,491
– financial assets at fair value through other comprehensive income	16,456	–	71,630	120,021	428,041	870,105	373,506	1,879,759
– financial assets at amortised cost	2,001	–	15,328	78,810	306,782	1,623,516	777,864	2,804,301
Other	301,633	338,223	22,683	7,554	18,968	50,792	19,639	759,492
Total assets	2,071,988	1,192,874	1,532,834	1,481,846	3,702,263	5,714,813	5,570,657	21,267,275
Liabilities								
Due to banks and other financial institutions	–	1,038,168	143,392	314,126	186,252	49,271	–	1,731,209
Due to central banks	–	172,280	104,114	157,466	465,590	8,071	–	907,521
Placements from banks and other financial institutions	–	–	429,492	123,223	58,135	1,417	–	612,267
Derivative financial liabilities	–	7,314	19,861	18,267	33,305	17,434	3,073	99,254
Due to customers	–	7,368,721	1,405,144	1,349,078	2,740,128	2,010,860	9,665	14,883,596
Bonds issued	–	–	45,983	99,061	196,535	323,057	117,491	782,127
Other	–	276,288	36,307	12,145	76,623	66,329	58,212	525,904
Total liabilities	–	8,862,771	2,184,293	2,073,366	3,756,568	2,476,439	188,441	19,541,878
Net liquidity gap	2,071,988	(7,669,897)	(651,459)	(591,520)	(54,305)	3,238,374	5,382,216	1,725,397

As at 30 June 2021, the Group's liquidity risk indicator met regulatory requirements. The Group's liquidity ratio as at 30 June 2021 and 31 December 2020 and 2019 is shown in the table below (in accordance with relevant provisions of regulatory authorities in the Chinese Mainland):

Unit: %

Indicator		Regulatory standard	As at 30 June 2021	As at 31 December 2020	As at 31 December 2019
Liquidity ratio[(1)]	RMB	≥25	48.6	54.5	54.6
	Foreign Currency	≥25	66.6	58.6	60.4

Note:

(1) Liquidity ratio is the indication of the Group's liquidity. Liquidity ratio = current assets/current liabilities. Liquidity ratio is calculated in accordance with the relevant provisions of the CBIRC.

Reputational Risk Management

The Bank earnestly implemented regulatory requirements on reputational risk management, continued to enhance its reputational risk management system and mechanism, and strengthened the consolidated management of reputational risk, so as to enhance its overall reputational risk management capabilities. It attached great importance to the investigation and pre-warning of potential reputational risk factors, strengthened public opinion monitoring, continued to conduct reputational risk identification, assessment and reporting, and dealt appropriately with reputational events, thus effectively protecting its brand reputation. In addition, the Bank continued to roll out reputational risk management training so as to enhance employees' awareness and foster a culture of reputational risk management.

Internal Control and Operational Risk Management

Internal Control

The Board of Directors, senior management and their special committees earnestly performed their duties regarding internal control and supervision while emphasising early risk warning and prevention, thus improving the Group's level of operational compliance.

The Bank continued to adopt the "Three Lines of Defence" mechanism for internal control. The first line of defence consists of business departments and all banking outlets. They are the owners of, and are accountable for, local risks and controls. They undertake self-directed risk control and management functions in the course of their business operations, including formulating and implementing policies, conducting business examination, reporting control deficiencies and organising rectifications.

The internal control and risk management departments of the Bank's institutions at all levels form the second line of defence. They are responsible for the overall planning, implementing, examining and assessing of risk management and internal control, as well as for identifying, measuring, monitoring and controlling risks. They lead the first line of defence to enhance its use of the Group's operational risk monitoring and analysis platform, and are responsible for handling employee violations and management accountability. Through regular monitoring of material risks, the Bank identified and mitigated risks in a timely manner and promoted the optimisation of its business processes and systems.

The third line of defence rests in the audit department of the Bank. The audit department is responsible for performing internal audits of the Bank's internal control and risk management in respect of its adequacy and effectiveness. Focusing on the implementation of national policies, regulatory requirements and the Group's strategies, the Bank concentrated its efforts on the main responsibilities of audit supervision, closely monitored material potential risks and weak links, and carried out audit inspections as scheduled. The Bank attached equal importance to problem revelation and rectification supervision. It further improved its rectification supervision mechanism for audit findings, strengthened the tracking, inspection and prioritised supervision of audit findings rectification, and promoted the application of audit results and the improvement of rectification quality and efficiency. The Bank also deepened audit system reform, continued to enhance audit team building, promoted IT applications in audit, and further reinforced the use of IT-based audit approaches in audit.

The Bank devoted great efforts to internal control and case prevention management, consolidated the liabilities of primary responsible parties and took multiple control measures. It consistently improved internal control rules, processes and systems, stepped up efforts in the building of its internal control inspection team and organised Bank-wide risk screening, thereby improving the quality and efficiency of its internal control and case prevention. The Bank also focused on the rectification of issues and findings, raised employees' compliance awareness and fostered an internal control compliance culture.

The Bank continued to implement the Basic Standard for Enterprise Internal Control and its supporting guidelines, and earnestly implemented the Guidelines for Internal Control of Commercial Banks by following the basic principles of "complete coverage, cheques and balances, prudence and correspondence", so as to promote internal control governance and an organisational structure characterised by a reasonable delegation of work, well-defined responsibilities and clear reporting lines.

The Bank established and implemented a systematic financial accounting policy framework in accordance with relevant accounting laws and regulations. As such, its accounting basis was solidified and the level of standardisation and refinement of its financial accounting management was further improved. The Bank has endeavoured to implement, access and evaluate sound accounting standards and establish a long-term accounting management mechanism. It continuously strengthened the high-quality management of its accounting information so as to ensure internal control effectiveness over financial reporting. The financial statements of the Bank were prepared in accordance with the applicable accounting standards and related accounting regulations, and the financial position, operational performance and cash flows of the Bank were fairly presented in all material respects.

Focusing on fraud risk prevention and control, the Bank proactively identified, assessed, controlled and mitigated risks. In the first half of 2021, the Bank successfully prevented 77 external cases involving RMB50.9228 million.

Operational Risk Management

The Bank continuously improved its operational risk management system. It promoted the application of operational risk management tools, including Risk and Control Assessment (RACA), Key Risk Indicators (KRI) and Loss Data Collection (LDC), etc., to identify, assess and monitor operational risks, thus continuously improving its risk management measures. The Bank enhanced its system support capability by optimising its operational risk management information system. It strengthened its business continuity management system, optimised its operating mechanism to enhance its business operating sustainability, improved business continuity rules and regulations, conducted business impact analysis, refined contingency plans, carried out business continuity drills, proactively addressed the COVID-19 pandemic and improved the Group's business continuity capacity.

Compliance Management

The Bank continuously improved its compliance risk governance mechanism and management process to ensure the stable operation and sustainable development of the Group. It strengthened its anti-money-laundering ("**AML**") and sanction compliance management mechanism, optimised AML resource allocation, and deepened monitoring and management. It further enhanced its system and model building and improved system functionality. The Bank continuously strengthened the establishment of a robust management framework for overseas compliance, improved its compliance risk assessment programme, refined relevant management policies, and enhanced the compliance management capabilities of its overseas institutions. It improved its AML and sanction compliance training management mechanism and conducted various forms of compliance training, so as to enhance all employees' compliance awareness and abilities.

The Bank enhanced the management of its connected transactions and internal transactions. It improved the management of connected parties and consolidated the foundation of its connected transaction management. It strengthened the routine monitoring and examination of connected transactions and strictly controlled their risks. In addition, it continuously strengthened its internal transaction management procedures and implemented internal transaction monitoring and reporting. It also improved its connected transaction monitoring system and internal transaction management system, and thereby enhanced IT applications in compliance management.

Country Risk Management

The Group incorporates country risk into its comprehensive risk management system in strict compliance with regulatory requirements. It manages and controls country risk through a series of management instruments, including country risk ratings, country risk limits, statistical measurement and monitoring of country risk exposures and provisioning of allowances, etc. In the first half of 2021, the Bank continued to strengthen country risk management in strict compliance with regulatory requirements and in line with its business development needs. It performed an annual review of country risk ratings and limits, and enhanced the monitoring and reporting of country risk exposures. For potentially high-risk countries and regions, it issued risk prompts in a timely manner and adopted a differentiated management approach. The Group's net exposure to country risks was mainly concentrated on countries and regions that have low and relatively low risk ratings, and its overall country risk remained at a reasonable level.

Capital Management

The Bank thoroughly applied the concepts of capital constraint and value creation, and improved its economic capital budgeting and assessment mechanism. It actively reinforced the construction of its capital management system and continuously refined its overall capital management. It also continually optimised its on- and off-balance sheet asset structure and strived to improve the endogenous capacity of its capital base. The Bank also seized market opportunities to advance its external capital replenishment. In the first half of 2021, it successfully issued RMB50.0 billion of undated capital bonds and RMB25.0 billion of tier 2 capital bonds, and redeemed RMB28.0 billion of domestic preference shares. As at 30 June 2021, the Group's capital adequacy ratio stood at 15.61%, reaching a relatively high level.

Capital Adequacy Ratios

The capital adequacy ratios as at 30 June 2021, 31 December 2020, 2019 and 2018 separately calculated in accordance with the Capital Rules for Commercial Banks (Provisional) are listed below:

	Group				Bank			
Items	As at 30 June 2021	As at 31 December 2020	As at 31 December 2019	As at 31 December 2018	As at 30 June 2021	As at 31 December 2020	As at 31 December 2019	As at 31 December 2018
	(RMB million, except percentages)							
Net common equity tier 1 capital	1,748,114	1,704,778	1,596,378	1,465,769	1,474,957	1,441,977	1,346,623	1,251,056
Net tier 1 capital	2,058,220	1,992,621	1,806,435	1,575,293	1,774,468	1,719,467	1,546,517	1,350,770
Net capital	2,526,199	2,451,055	2,201,278	1,922,350	2,225,969	2,162,054	1,927,188	1,683,893
Common equity tier 1 capital adequacy ratio	10.80%	11.28%	11.30%	11.41%	10.68%	10.99%	10.99%	11.08%
Tier 1 capital adequacy ratio	12.72%	13.19%	12.79%	12.27%	12.84%	13.10%	12.62%	11.96%
Capital adequacy ratio	15.61%	16.22%	15.59%	14.97%	16.11%	16.47%	15.72%	14.92%

Environmental and Social Responsibilities

The Bank continued to actively carry out its responsibilities as a state-owned commercial bank. Leveraging the competitive advantages arising from its global and comprehensive operations, it continually expanded and deepened its social responsibility practises, devoted itself to promoting win-win cooperation with stakeholders and created sustainable value for the environment, society and economy.

Centring on the overall objectives of China's rural revitalisation strategy, the Bank continued to increase resource inputs in order to meet various financial needs related to rural revitalisation, with a focus on key regions and weak links. It endeavoured to increase financial services coverage by setting up more service outlets and smart devices in rural areas, in order to boost rural revitalisation. As at 30 June 2021, BOC outlets covered 1,172 counties, with a coverage ratio of 62.34 per cent. BOC Fullerton Community Bank, meanwhile, has cumulatively established 124 village banks and 184 sub-branch outlets. In the first half of 2021, the Bank continued to consolidate progress in poverty alleviation, providing more than RMB40.00 million of cost-free funding to the four targeted counties and implementing nearly 30 projects including assistance with key development industries and projects aimed at improving people's livelihood.

Upholding the principles of "serving society, contributing to society and repaying society", the Bank continued to carry out dedicated public welfare programmes. Through the "Bank of China Philanthropy" online fundraising platform, the Bank provided convenient, transparent and safe donation services for charities and the public. In the first half of 2021, the platform hosted a total of 104 fundraising activities on behalf of 48 charitable organisations, raising RMB1.81 million from 36.3 thousand donors. The Bank developed and popularised the "Bank of China Philanthropy Mutual Assistant Platform for Elderly Care", which serves as a bridge for information exchange between the elderly and volunteers, and helps the government to carry out the socialisation reform of elderly care. It continued to provide government-sponsored student loans to support education, cumulatively granting student loans of RMB24.7 billion to sponsor over 1.80 million financially underprivileged students to complete their studies as at 30 June 2021. It has sponsored the Tan Kah Kee Science Award for the 18th consecutive years, boosting the development of technology and the cultivation of innovative professional talents. As the official banking partner of the Olympic and Paralympic Winter Games Beijing 2022 (Beijing 2022 Games), the Bank promoted financial services to the winter sports industry and supported the joint development of winter sports and related industries among all sectors of society.

The Bank actively implemented the national green development concept and continued to support the building of the green finance sector, made contribution to peak carbon dioxide emissions and carbon neutrality. Guided by Bank of China's Green Finance Plan during the 14th Five Year Plan Period, green development requirements are now being integrated into all areas of the Bank, including its organisational structure, corporate governance, policies and systems, product design and risk management processes. The Bank enhanced its top-level organisational structure by setting up a steering group for the planning and development of green finance and green industries, and by establishing the Green Finance Committee to provide overall leadership on green finance management and decision-making. It also continued to deepen innovation in green financial services, including green credit, green bonds, green deposits and green asset management, and remained committed to being the number one choice for green banking services. The Bank also actively participated in the green finance projects and initiatives of international organisations. It performed the role of Co-Chairman of the Task Force of Green Financial Product Innovation under the Green Investment Principles (GIP) for the Belt and Road Initiative, and was a member of the 2020/2021 Advisory Council of the Green Bond Principles and Social Bond Principles Executive Committee of the International Capital Market Association (ICMA). In the first half of 2021, the Bank became a supporter of the Task Force on Climate-related Financial Disclosures (TCFD), as well as joining and participating in the work of the Task Force on UK-China Climate and Environmental Information Disclosure Pilot and the Task Force on Support for Carbon Peak and Carbon Neutrality by the Chinese Banking Industry.

Furthermore, it actively identified climate-related risks and opportunities, and formulated action plans in response to climate risks. At the same time, the Bank integrated low carbon and environmental protection requirements into its routine operations and practised the development philosophy of "harmony and coexistence between humankind and nature" by encouraging employees to adopt green working practises and lifestyles and carrying out a diverse range of public welfare environmental protection campaigns.

The following discussions and analysis should be read in conjunction with the Bank's audited consolidated financial statements as at and for the years ended 31 December 2020 and 2019, and the Bank's unaudited but reviewed condensed consolidated interim financial statements as at and for the six months ended 30 June 2021, which have been incorporated by reference into this Offering Circular. The Bank's consolidated financial statements have been prepared in accordance with IFRS. Unless otherwise stated, all financial data discussed in this section are consolidated financial data.

Analysis of Loans and Advances to Customers

The following table sets forth analysis of the Group's loans and advances to customers as at 30 June 2021 and 31 December 2020, respectively.

	As at 30 June 2021	As at 31 December 2020
	(RMB million)	
Measured at amortised cost		
– Corporate loans and advances	9,153,631	8,235,520
– Personal loans	5,918,549	5,583,295
– Discounted bills	2,365	1,912
Measured at fair value through other comprehensive income(1)		
– Discounted bills	302,778	358,997
Subtotal	15,377,323	14,179,724
Measured at fair value through profit or loss(2)		
– Corporate loans and advances	4,165	3,661
Total	15,381,488	14,183,385
Accrued Interest	34,912	33,092
Total loans and advances	15,416,400	14,216,477
Less: Allowance for loans at amortised cost	(368,686)	(368,173)
Loans and advances to customers, net	15,047,714	13,848,304

Notes:

(1) As at 30 June 2021 and 31 December 2020, loans at fair value through other comprehensive income of the Group were discounted bills. Related allowance for impairment losses amounted to RMB482 million and RMB446 million, respectively and was credited to other comprehensive income.

(2) There was no significant change for the six month period ended 30 June 2021 and the year ended 31 December 2020, or cumulatively, in the fair value of the loans that was attributable to changes in the credit risk of the loans.

Loans and Advances to Customers by Industry

The following table sets forth, as at the dates indicated, an analysis of the Group's loans and advances to customers by industry:

	As at 30 June		As at 31 December					
	2021		2020		2019		2018	
	Amount	per cent. of total	Amount	per cent. of total	Amount	per cent. of total	Amount	per cent. of total
	(RMB million, except percentages)							
Corporate loans and advances								
Commerce and services	1,992,248	12.95	1,764,213	12.44	1,706,650	13.09	1,516,354	12.86
Manufacturing	1,855,136	12.06	1,692,261	11.93	1,679,202	12.88	1,674,340	14.21
Transportation, storage and postal services	1,653,269	10.75	1,493,828	10.53	1,294,922	9.93	1,182,411	10.03
Real estate	1,214,090	7.89	1,137,469	8.02	1,042,664	8.00	915,793	7.77
Production and supply of electricity, heating, gas and water	778,023	5.06	726,824	5.13	649,289	4.98	648,849	5.50
Financial services	794,154	5.16	646,979	4.56	565,333	4.34	398,478	3.38
Mining	273,420	1.78	282,394	1.99	293,375	2.25	320,369	2.72
Construction	315,224	2.05	268,676	1.89	255,160	1.96	239,397	2.03
Water, environment and public utility management	277,614	1.80	250,551	1.77	199,376	1.53	167,811	1.42
Public utilities	164,750	1.07	161,402	1.14	149,855	1.15	125,917	1.07
Other	145,011	0.95	175,493	1.24	150,554	1.16	157,879	1.34
Subtotal	9,462,939	61.52	8,600,090	60.64	7,986,380	61.27	7,347,598	62.33
Personal loans								
Mortgages	4,605,752	29.94	4,418,761	31.15	3,993,271	30.64	3,503,563	29.72
Credit cards	502,559	3.27	498,435	3.51	476,743	3.66	426,338	3.62
Other	810,238	5.27	666,099	4.70	577,795	4.43	510,184	4.33
Subtotal	5,918,549	38.48	5,583,295	39.36	5,047,809	38.73	4,440,085	37.67
Total loans and advances to customers	15,381,488	100.00	14,183,385	100.00	13,034,189	100.00	11,787,683	100.00

Loans and Advances to Customers by Geographical Area

The following table sets forth, as at the dates indicated, an analysis of the Group's loans and advances to customers by geographical area:

Group

	As at 30 June		As at 31 December					
	2021		2020		2019		2018	
	Amount	per cent. of total	Amount	per cent. of total	Amount	per cent. of total	Amount	per cent. of total
	(RMB million, except percentages)							
Chinese Mainland	12,407,949	80.67	11,501,791	81.09	10,302,408	79.04	9,273,549	78.67
Hong Kong, Macau and Taiwan	1,931,922	12.56	1,697,934	11.97	1,697,434	13.02	1,515,844	12.86
Other countries and regions	1,041,617	6.77	983,660	6.94	1,034,347	7.94	998,290	8.47
Total	15,381,488	100.00	14,183,385	100.00	13,034,189	100.00	11,787,683	100.00

Chinese Mainland

	As at 30 June		As at 31 December					
	2021		2020		2019		2018	
	Amount	per cent. of total	Amount	per cent. of total	Amount	per cent. of total	Amount	per cent. of total
	(RMB million, except percentages)							
Northern China	1,798,865	14.50	1,695,932	14.74	1,573,127	15.27	1,456,249	15.70
Northeastern China	529,119	4.26	502,186	4.37	494,186	4.80	501,420	5.41
Eastern China	4,880,028	39.33	4,505,204	39.17	4,016,742	38.99	3,622,159	39.06
Central and Southern China	3,531,244	28.46	3,266,619	28.40	2,875,436	27.91	2,499,434	26.95
Western China	1,668,693	13.45	1,531,850	13.32	1,342,917	13.03	1,194,287	12.88
Total	12,407,949	100.00	11,501,791	100.00	10,302,408	100.00	9,273,549	100.00

The following table sets forth, as at the dates indicated, an analysis of the Group's impaired loans and advances by geographical area:

Group

	As at 30 June			As at 31 December								
	2021			2020			2019			2018		
	Amount	per cent. of total	Impaired loan ratio	Amount	per cent. of total	Impaired loan ratio	Amount	per cent. of total	Impaired loan ratio	Amount	per cent. of total	Impaired loan ratio
	(RMB million, except percentages and ratios)											
Chinese Mainland	179,082	89.39	1.44%	189,985	91.66	1.65%	169,951	95.35	1.65%	162,778	97.50	1.76%
Hong Kong, Macau and Taiwan	5,895	2.94	0.31%	4,674	2.25	0.28%	3,842	2.16	0.23%	2,720	1.63	0.18%
Other countries and regions	15,371	7.67	1.48%	12,614	6.09	1.28%	4,442	2.49	0.43%	1,454	0.87	0.15%
Total	200,348	100.00	1.30%	207,273	100.00	1.46%	178,235	100.00	1.37%	166,952	100.00	1.42%

Chinese Mainland

	As at 30 June			As at 31 December								
	2021			2020			2019			2018		
	Amount	per cent. of total	Impaired loan ratio	Amount	per cent. of total	Impaired loan ratio	Amount	per cent. of total	Impaired loan ratio	Amount	per cent. of total	Impaired loan ratio
	(RMB million, except percentages and ratios)											
Northern China	21,941	12.25	1.22%	27,699	14.58	1.63%	31,762	18.69	2.02%	23,053	14.16	1.58%
Northeastern China	9,804	5.47	1.85%	15,229	8.02	3.03%	22,123	13.02	4.48%	40,580	24.93	8.09%
Eastern China	57,891	32.33	1.19%	52,199	27.47	1.16%	59,764	35.17	1.49%	56,423	34.66	1.56%
Central and Southern China	76,382	42.66	2.16%	81,201	42.74	2.49%	39,060	22.98	1.36%	28,114	17.28	1.12%
Western China	13,064	7.29	0.78%	13,657	7.19	0.89%	17,242	10.14	1.28%	14,608	8.97	1.22%
Total	179,082	100.00	1.44%	189,985	100.00	1.65%	169,951	100.00	1.65%	162,778	100.00	1.76%

Loans and Advances to Customers by Customer Type

The following table sets forth, as at the dates indicated, an analysis of the impaired loans and advances of the Group categorised by customer type:

Group

	As at 30 June			As at 31 December								
	2021			2020			2019			2018		
	Amount	per cent. of total	Impaired loan ratio	Amount	per cent. of total	Impaired loan ratio	Amount	per cent. of total	Impaired loan ratio	Amount	per cent. of total	Impaired loan ratio
	(RMB million, except percentages and ratios)											
Corporate loans and advances	169,116	84.41	1.79%	174,012	83.95	2.02%	149,427	83.84	1.87%	139,108	83.32	1.89%
Personal loans	31,232	15.59	0.53%	33,261	16.05	0.60%	28,808	16.16	0.57%	27,844	16.68	0.63%
Total	200,348	100.00	1.30%	207,273	100.00	1.46%	178,235	100.00	1.37%	166,952	100.00	1.42%

Chinese Mainland

	As at 30 June			As at 31 December								
	2021			2020			2019			2018		
	Amount	per cent. of total	Impaired loan ratio	Amount	per cent. of total	Impaired loan ratio	Amount	per cent. of total	Impaired loan ratio	Amount	per cent. of total	Impaired loan ratio
	(RMB million, except percentages and ratios)											
Corporate loans and advances	148,791	83.09	2.08%	157,767	83.04	2.42%	141,978	83.54	2.43%	135,421	83.19	2.54%
Personal loans	30,291	16.91	0.58%	32,218	16.96	0.65%	27,973	16.46	0.63%	27,357	16.81	0.70%
Total	179,082	100.00	1.44%	189,985	100.00	1.65%	169,951	100.00	1.65%	162,778	100.00	1.76%

Reconciliation of Allowance for Impairment Losses

The following table sets out reconciliation of allowance of impairment losses on loans and advances to customers measured at amortised cost for the six month period ended 30 June 2021:

	For the six month period ended 30 June 2021			
	Stage 1 (12-month ECLs)	Stage 2 (Lifetime ECLs)	Stage 3 (Lifetime ECLs)	Total
	(RMB million)			
As at 1 January 2021	134,566	70,712	162,895	368,173
Transfers to Stage 1	5,899	(4,945)	(954)	–
Transfers to Stage 2	(1,446)	2,651	(1,205)	–
Transfers to Stage 3	(106)	(10,230)	10,336	–
Impairment (reversal)/losses due to stage transfers	(4,922)	8,909	19,631	23,618
Charge for the period[(1)]	40,182	12,267	34,864	87,313
Reversal for the period[(2)]	(36,243)	(13,350)	(13,626)	(63,219)
Write-off and transfer out	(130)	–	(52,548)	(52,678)
Recovery of loans and advances written off	–	–	6,580	6,580
Exchange differences and other	(117)	(627)	(357)	(1,101)
As at 30 June 2021	137,683	65,387	165,616	368,686

The following table sets out reconciliation of allowance of impairment losses on loans and advances to customers measured at amortised cost for the year ended 31 December 2020:

	For the year ended 31 December 2020			
	Stage 1 (12-month ECLs)	Stage 2 (Lifetime ECLs)	Stage 3 (Lifetime ECLs)	Total
	(RMB million)			
As at 1 January 2020	109,765	79,051	136,544	325,360
Transfers to Stage 1	3,769	(3,232)	(537)	–
Transfers to Stage 2	(1,274)	13,913	(12,639)	–
Transfers to Stage 3	(407)	(30,546)	30,953	–
Charge for the year(1)	70,933	24,190	42,114	137,237
Reversal	(43,164)	(21,257)	(10,126)	(74,547)
Impairment (reversal)/losses due to stage transfers	(3,507)	9,357	35,203	41,053
Write-off and transfer out	(66)	–	(64,255)	(64,321)
Recovery of loans and advances written off	–	–	8,405	8,405
Unwinding of discount on allowance	–	–	(1,236)	(1,236)
Exchange differences and other	(1,483)	(764)	(1,531)	(3,778)
As at 31 December 2020	134,566	70,712	162,895	368,173

Note:

(1) Charge for the period/year comprises the impairment losses attributable to new loans, remaining loans without stage transfers, and charges to model/risk parameters, etc.

(2) Reversal for the period/year comprises impairment losses attributable to loan repaid, remaining loans without stage transfers, and charges to model/risk parameters, etc.

The following table sets out reconciliation of allowance for impairment losses on loans and advances to customers measured at fair value through other comprehensive income for the six month period ended 30 June 2021:

	For the six month period ended 30 June 2021			
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Total
	(RMB million)			
As at 1 January 2021	441	5	–	446
Charge for the period	366	21	–	387
Reversal for the period	(326)	(23)	–	(349)
Exchange differences and other	(2)	–	–	(2)
As at 30 June 2021	479	3	–	482

The following table sets out reconciliation of allowance for impairment losses on loans and advances to customers measured at fair value through other comprehensive income for the year ended 31 December 2020:

	For the year ended 31 December 2020			
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Total
	(RMB million)			
As at 1 January 2020	547	16	–	563
Charge for the year	563	5	–	568
Reversal for the year	(665)	(16)	–	(681)
Exchange differences and other	(4)	–	–	(4)
As at 31 December 2020	441	5	–	446

Starting on 1 January 2018, the Bank has applied IFRS 9, and differences arising from the adoption of IFRS 9 have been recognised directly in shareholders' equity as at 1 January 2018. IFRS 9 requires that the measurement of impairment of a financial asset be changed from "incurred loss model" to "ECL model". In accordance with IFRS 9, the Bank assesses ECL with forward-looking information and makes relevant allowances. In particular, it makes allowances for assets classified into stage 1 and assets classified into stage 2 & 3 according to ECL of 12 months and ECL of the entire lifetime respectively. Since 2020, the Bank has reclassified the financing charges from the instalment business of credit card holders, from net fee and commission income to interest income. The comparative figures for the same period in 2019 were restated.

DESCRIPTION OF THE ISSUER

Formation

Amipeace Limited is a limited liability company incorporated under the BVI Business Companies Act, 2004 of the British Virgin Islands (BVI Company Number: 1797042). It was incorporated in the British Virgin Islands on 31 October 2013. Its registered office is Kingston Chambers, PO Box 173, Road Town, Tortola, British Virgin Islands. The Issuer is an indirectly wholly-owned subsidiary of the Guarantor. The Issuer is a wholly-owned subsidiary of the Company.

The Issuer is authorised to issue a maximum of 50,000 shares of one class of no par value.

Business Activity

The Issuer has no prior operating history or prior business and will not have any substantial assets or liabilities other than in connection with the establishment of the Programme and issue of Notes under the Programme.

Financial Statements

Under British Virgin Islands law, the Issuer is not required to publish interim or annual financial statements. The Issuer has not publicly published, and does not propose to publicly publish, any financial statements in the future. The Issuer is, however, required to keep proper books of account as are necessary to give a true and fair view of the state of the Issuer’s affairs and to explain its transactions.

Directors

The directors of the Issuer are Mr. Ser Chak Lam and Ms. Tang Ling and their business address is at 23/F, Bank of China Tower, 1 Garden Road, Hong Kong.

None of the directors of the Issuer holds any shares or options to acquire shares of the Issuer.

The Issuer does not have any employees and has no subsidiaries.

DESCRIPTION OF THE COMPANY

Overview

The Bank strives to promote international and diversified development strategies and the direct investment business and management business are important components of the Bank's diversified development strategies. In December 1984, the Company was incorporated in Hong Kong as a wholly-owned subsidiary of the Bank. The direct investment business of the Bank has distinctive strengths and competitive edges and the Company acts as a platform for the direct investment and management business of the Bank.

At the legal level, the Bank is the sole shareholder of the Company. At the financial level, the Company is the subsidiary that has enjoyed the largest amount of capital injection by the Bank among the non-bank subsidiaries of the Bank.

As at 31 December 2020, the amount of capital that the Bank has injected in the Company amounted to HK$23.5 billion while the shareholders' equity of the Company amounted to HK$69.2 billion, an equity ratio of 51.64 per cent.

With its efforts and growth for more than 30 years since its incorporation, the Company has leveraged the broad business network of the Bank to capitalise on the overall synergies to secure business opportunities, expanded its business and accumulated extensive experience in investment and investment management. With its track record and extensive experience, the Company has established proprietary investment insight, unique strengths and a strong brand name while expanding its market presence and influence. As at 31 December 2020, the total assets of the Company amounted to HK$134.1 billion and shareholders' equity of the Company amounted to HK$69.2 billion. From 2014 to 2020, the Company achieved a cumulative profit of HK$25.7 billion and an average annual profit of HK$3.7 billion.

Principal Businesses of the Company

The Company mainly engages in equity investment, fund investment and management, real estate investment and management and NPA investment.

Enterprise equity investment

The Company's equity investment business carries out private equity investments primarily targeting non-listed companies with growth potential. Through the provision of various value-added services relating to development strategy, financial management and operations, the Company seeks to improve the target companies' access to capital markets and maximises their corporate value.

Investment size: As at 31 December 2020, the equity investment of the Company amounted to HK$55.6 billion, accounting for 47.96 per cent. of the total investment assets.

Adhering to the concept of value investment, equity investment prioritises the development of equity investment business in economically developed regions. The focus was placed on six main industries, including logistics, consumption, finance, medial and medical care, high-end manufacturing and new energy, TMT and while taking into account other investment opportunities. Investments are made in growth enterprises with relatively stable business models, with moderate support for mergers and acquisitions; supporting technological innovation and entrepreneurship with moderate VC investments in innovative technological companies that have mature business models. The Company, as a wholly owned subsidiary of the Bank, has its unique advantages to financially and technically support the invested companies to improve their enterprise value. The Company promotes comprehensive strategic cooperation with portfolio companies to improve their corporate governance in the aspects of their development strategy, operation mechanism and incentive mechanism. Eventually, the Company realises investment return through interest, dividends and capital gains.

The Company's core competitiveness and value-adding capabilities of the equity investment business include: perfecting portfolio companies' development strategy; assisting enterprises in sorting out and optimising regional and business development strategic planning; introducing external industry experts and internationally renowned consultancy institutions to perform joint assessment of portfolio companies and to provide recommendations on development optimization; tracking the portfolio companies on their execution of strategic plans; improving the governance mechanism of portfolio companies and assisting them in making scientific decisions on major issues by appointing directors with extensive experiences; working with portfolio companies over the appointment of independent directors to further improve their corporate governance mechanisms; encouraging and assisting the portfolio companies to establish an effective incentive mechanisms and control mechanisms; and assisting portfolio companies to secure approval of advantageous policies announced by government and regulatory authorities. The Company promotes comprehensive strategic cooperation with portfolio companies. By utilising the broad networking resources of the Bank's clientele, the Company is able to provide strong support for portfolio companies to achieve their business goals. The Company also assists portfolio companies to improve their operational efficiency, optimise their financial structure and eventually achieve their business profit and enterprise value growth.

Major investment projects: Global Logistic Properties (普洛斯), Beijing-Shanghai High-speed Rail (京滬高鐵), WuXi AppTec (藥明康德).

Fund investment and management

The Company's fund investment and management business primarily engages in the professional investment and management of private equity funds.

Investment size: As at 31 December 2020, the fund investments of the Company amounted to HK$24.6 billion, accounting for 21.18 per cent. of the total investment assets of the Company.

The Company scientifically builds fund investment portfolios according to regions, industries and categories as well as optimises fund portfolio allocation. The Company has been extending its portfolio from mainly domestic growth-oriented private equity funds to front-end and, mergers and acquisitions projects by moderately increasing the proportion of venture capital funds to diversify investment risks and explore more opportunities. The Company carries out research on investments, strengthens the search for excellent venture capital fund managers and expands search channels. Additionally, the Company explores more joint investment opportunities and promotes closer business linkages among GPs.

By analysing the private equity market, the Company masters the factors of successful funds and thus forms a scientific standard to screen out promising fund investment opportunities. Through fund portfolio management, the Company diversifies investment portfolios and diversifies investment risk; through integration of its own business, the Bank's commercial bank business and portfolio funds, the Company enhances its investment capacity; by leveraging its advantages, the Company provides diversified financial products and services for portfolio funds; and the Company makes joint investments with the portfolio funds to pursue mutually beneficial partnership.

Major investment projects: Boyu Capital (博裕資本), CITICPE (中信產業), PAG Asia (太盟亞洲), KKR, IDG (IDG資本), Softbank China Venture Capital (軟銀中國).

Real estate investment

The Company achieves stable cash flows and capital appreciation of its invested properties by means of equity investment, property acquisition, jointed ownership investment and sale-leasebacks of properties in a transparent and open market. As of 31 December 2020, the real estate investment assets of the Company amounted to HK$30.3 billion, accounting for 26.14 per cent. of the total investment assets of the Company.

The Company focuses on high-quality, high-growth potential assets located in tier 1 cities and central business districts in PRC; meanwhile maintains the investment size in overseas markets; and establishes a network of domestic and foreign investors to explore the Company's potential partners. The improved rental income reflects the adding values of the properties and the increased ability of contributing value reflects the effort paid. The Company employs and explores diversified means of investments, including but not limited to equity investment, debt investment and capital market tools. The Company continues investigating different real estate investment fund management models in order to provide a wide variety of financial service products such as real estate investment, management and operations. The Company's professional management team effectively enhances the value of invested properties and comprehensive returns through measures such as tenant portfolio management, property quality improvement, capital structure restructuring. Based on the market and rental conditions, the tenant portfolio is adjusted to introduce high-quality tenants, and raise the rent in a timely manner; through renovating and refitting of project properties, the quality and grading of the projects are improved to increase the rent for the properties; project investment loans are adjusted and replaced in a timely manner to effectively reduce loan interest and improve project cash flow and returns; and through professional property management services, property service standard is maintained and improved to ensure a steady flow of high-quality tenants and drive increase in rent.

The Company captures market opportunities, increases investment in real estate, and continuously improves the value-added and financial contribution of investment properties. It also requires that there be a foreseeable exit channel during the project investment phase, and that the assets be withdrawn at an appropriate time. In recent years, the vacancy rate of the Company's invested properties has remained at a low level and the trend rental income has maintained steady growth, providing the Company with the guarantee of a stable cash flow; on the other hand, as a result of good asset management, the market value of invested property assets has also been continuously improved, and has so far, created relatively good space for adding values.

Major investment projects: Shanghai Litong Plaza (上海利通廣場), Shanghai Changxing Tower (上海暢星大廈), Shanghai VI-Hub (上海萬創中心), Xidan Ginza Centre (北京西單銀座中心北座), Grand Millennium Plaza (香港新紀元廣場).

Non-performing assets (NPA) investment

The Company acquires, manages and disposes of non-performing debt, non-performing equity and other non-performing assets. As at 31 December 2020, the NPA investment of the Company amounted to HK$5.5 billion, accounting for 4.72 per cent. of the total investment assets of the Company.

The non-performing assets investment focuses on the structuring non-performing asset of Bank of China Group, associated with other investments, through sole proprietorship, cooperation (joint venture), funds, non-performing asset securitization, mergers and reorganisations to invest in non-performing debt, non-performing equity and other non-performing assets. The investment region of the Company is dominated by the economic development and level of market activity, mainly in South China, Southeast coast, Bohai Economic Rim and Yangtze River Delta regions. The target should fall within the consumption and production areas which is under expansion, transformation and upgrade with core technological competitiveness in relevant industries. For post investment management and exit phase, the Company will establish on-site and off-site inspection to participate in project's supervision, analyse the relevant industry and market in a regular basis, fully utilise the relevant rights under investment contracts or through the meeting of shareholders and the board to protect own interest. In addition, the Company will provide value-added and management service to the project and exit the project subject to market practice in order to realise profits from the projects.

Major investment projects: Bank of China repossessed asset package, Shenzhen structured transaction asset package, debt restructuring of a hotel project in Shanghai, and asset restructuring project of an insurance company.

Competitive strengths of the Company

Distinctive resources of the Group

Firstly, the Bank has a strong brand name which gives it a competitive advantage. With a history of over a hundred years, the Bank is well-recognised globally. It is the most internationalised bank providing the most diversified range of services in the PRC. Furthermore, the Bank is the first financial institution based in the emerging economies to be selected on the list of global systemically important banks.

Secondly, as at 30 June 2021, the Bank had a total of 11,519 institutions worldwide, including 10,936 institutions in the Chinese Mainland and 556 institutions in Hong Kong, Macau, Taiwan and other countries and regions. Its domestic commercial banking business comprised 10,450 institutions, including 38 tier-1 and direct branches, 370 tier-2 branches and 10,041 outlets.

Thirdly, the Bank has a wide customer base. It has one of the broadest customer base among the banks in the PRC.

Excellent Investment Capabilities

Since its establishment in 1984, the Company has been engaged in equity investment. The Company expanded its investment business into non-performing assets investment and fund management in 1996, and real estate investment and management in 2006. With close to 30 years of experience in professional investment, the Company has one of the longest history, the highest value of assets under management and the most sophisticated operation system among professional investment companies in the PRC. The Company has successfully invested in various high profile projects, including Global Logistic Properties (普洛斯), Beijing-Shanghai High-speed Rail (京滬高鐵), WuXi AppTec (藥明康德), KKR European Fund (KKR歐洲基金), IDG Capital Fund (IDG 資本基金), Hony Capital Fund (弘毅系列基金), CDH US-Dollar Fund (鼎輝美元基金) and 140 Sussex Street. In April 2014, it was awarded the "2013 China's Best Private Equity Investing Organisation" and "2013 China Venture Capital & Private Equity Investor Ten-Year Achievement Award" by CHINA VENTURE. It was also recognised as one of the "Top 50 Chinese Private Equity Investment Institutions of 2019" and "Top 50 Chinese Private Equity Investment Institutions of 2020" by Zero2IPO Group.

Sound corporate governance system

Upholding the effective corporate governance system of the Bank, the Company has strengthened its corporate governance system by defining accountability, strengthening management control and optimising its operating system.

Well-rounded board of directors

With extensive experience in investment and management, the board of directors of the Company has formulated a clear strategic plan for the Company. The board of directors is responsible for the overall coordination, and provision of guidance and support to the management to ensure the steady and strong development and growth of the Company.

The board of directors of the Company has nine members, all of whom were appointed by the Bank. Mr. Liu Jian, Chairman of the Board of Directors, joined Bank of China in January 2020 and serves as Chairman of the Company since June 2021, Chief Executive Officer and Executive Director of the Company since April 2020. Among the remaining eight directors, five of them are members of the general manager office of the Bank, including credit management department, financial control department, corporate banking department, human resources department and audit department.

Mr. Liu Jian: PhD and CPA holder. From June 1998 to April 2007, he served as Chief Officer, Deputy Division Chief and Division Chief of China Securities Regulatory Commission. From April 2007 to September 2007, he served as General Director in the Administration Division of Central Huijin Investment Ltd. From September 2007 to September 2013, he served as Deputy Director, Director and Secretary of the Board of China Investment Corporation. From September 2013 to January 2020, he served as Counsel and Director at the Ministry of Finance. He joined Bank of China in January 2020, serves as Chief Executive Officer and Executive Director of the Company since April 2020, and serves as Chairman of the Company since June 2021.

Mr. Li Changlin[1]: bachelor's degree holder. Served in different positions since joining the Bank in 1993. From March 1999 to August 2003, he served as the Director of the Bank's of the Risk Management Department and General Office; from August 2003 to December 2010, he served as the Deputy General Manager of the Bank's Risk Management Department; from December 2010 to May 2014, he served as the General Manager of the Bank's Risk Management Headquarters Credit Approval Module; and from May 2014 to December 2019, he served as the General Manager of the Bank's Credit Approval Department. Non-executive director of the Company since September 2005.

Ms. Wei Hanguang: master of business administration. Served in different positions since joining the Bank in July 1994. From May 2005 to October 2005, she served as the Vice President of the Bank's branch at Jiefang Road, Xi'an City, Shaanxi Province (deputy level); from October 2005 to December 2009, she served as the Senior Manager of Human Resources Department of the Bank's Head Office; from December 2009 to April 2015, she served as the team leader of the Human Resources Department of the Bank's Head Office; from April 2015 to December 2020, she served as the Deputy General Manager of the Human Resources Department of the Bank's Head Office (since January 2016, she also served as the Chairman of the Bank's Enterprise Annuity Council); since December 2020, she serves as the General Manager of the Human Resources Department of the Bank's Head Office. Non-executive director of the Company since October 2018.

Ms. Liu Yan: bachelor's degree holder. From February 1992 to October 1997, she served as Deputy Director of the Bank's General Account Auditing Office; from October 1997 to October 2007, she served as the Director of the Bank's Account Auditing Department; in October 2007, she served as the Deputy General Manager of the Bank's Account Auditing Department; from November 2007 to October 2009, she was served as the Deputy General Auditor of the Beijing Branch; from November 2009 to March 2021, she served as the Deputy General Manager of the Bank's Account Auditing Department (renamed as the "Audit Department" in October 2016); since December 2021, she serves as the Chief Audit Manager of Audit Department . Non-executive director of the Company since August 2015.

Mr. Zhou Bing: master's degree holder. Served in different positions since joining the Bank in July 1998. From April 2009 to July 2011, he served as the Assistant General Manager of the Bank's financial headquarters; from July 2011 to July 2014, he served as Assistant Executive President of BOC International Holdings Limited; since July 2014, he served as the Deputy General Manager of the Bank's Corporate Banking Department and since January 2015, a Director of the Bank Luxembourg Co., Ltd. Non-executive director of the Company since August 2015.

Ms. Jin Yan: master's degree holder. Served in different positions since joining the Bank in July 1998. From June 2007 to June 2012, she served as the team leader of the Business Unit of the Bank's New York branch; from June 2012 to March 2014, she served as the General Manager of the Risk Management Department of the Bank's New York branch; from March 2014 to May 2015, she served as Assistant to the President and Director of Credit Risk of the Bank's New York branch; from May 2015 to July 2015, she served as Assistant to the President of the Bank's New York branch; since July 2015, she served as the Deputy General Manager of the Bank's Risk Management Department. Non-executive director of the Company since September 2016.

Mr. Ding Yan: master's degree holder, joined the Bank in July 1996. From May 2008 to December 2011, he was the Head of the Risk Management Department of the Head Office; from December 2011 to March

[1] Mr. Zhang Hang is an alternate director of Mr. Li Changlin since 14 March 2012.

2014, he was the Assistant General Manager of the Risk Management Headquarters of the Head Office; from March 2014 to September 2014, he served as Assistant General Manager of the Credit Management Department of the Head Office; since September 2014, he served as Deputy General Manager of the Credit Management Department of the Head Office. Non-executive director of the Company since May 2019.

Mr. Yang Qing: bachelor's degree holder. Served in different positions since joining the Bank in July 1987. From March 1992 to August 1998, he served as assistant and assistant manager in Foreign Exchange Funds Department of the Bank's New York branch; from August 1998 to September 2008, he was the Deputy Director of the Treasury Department Trade Division II, Deputy Director and Head of the Global Financial Market Department of the Head Office successively; from September 2008 to January 2016, he was the senior trader in Global Market Department, Trading Division in Financial Markets Department and Global Market Department of the Head Office successively; from January 2016 to March 2021, he served as Deputy General Manager of the Global Market Department of the Head Office. Non-executive director of the Company since March 2021.

Ms. Wen Lan: master's degree holder, intermediate accountant, certified public accountant of China and Australia. From July 1999 to August 2013, she served as staff, Senior Manager, Deputy Team Leader and Team Leader of Financial Control Department of the Head Office successively; from August 2013 to March 2019, she was the General Manager of the Financial Control Department of the Bank's Brisbane branch; from March 2019 to December 2019, she was the General Manager of the Bank's Brisbane branch, from December 2019 to April 2021, she was the Assistant General Manager of Financial Control Department of the Head Office; since April 2021, she served as Deputy General Manager of Financial Control Department of the Head Office. Non-executive director of the Company since April 2021.

Strong senior management team

The senior management team of the Company comprises 3 members, namely, Mr. Liu Jian, Chief Executive Officer, Mr. Ser Chak Lam and Ms. Wang Haixia, Deputy Chief Executive Officer. The senior management team have extensive experience in commercial banking and investment fields, and are prudent and practical in their operation and management of the Company.

Mr. Liu Jian: PhD and CPA holder. From June 1998 to April 2007, he served as Chief Officer, Deputy Division Chief and Division Chief of China Securities Regulatory Commission. From April 2007 to September 2007, he served as General Director in the Administration Division of Central Huijin Investment Ltd. From September 2007 to September 2013, he served as Deputy Director, Director and Secretary of the Board of China Investment Corporation. From September 2013 to January 2020, he served as Counsel and Director at the Ministry of Finance. He joined Bank of China in January 2020 and serves as Chief Executive Officer and Executive Director of the Company since April 2020.

Mr. Ser Chak Lam: master's degree holder. Joined the Company in 1993. From 2001 to 2004, he served as Senior Manager and Head of the Risk Management and Compliance Department of the Company. Assistant to the President of the Company from July 2004 to April 2016. Deputy Chief Executive Officer of the Company since April 2016.

Ms. Wang Haixia: master's degree holder. Served in different positions from March 1999 to November 2020 in the Bank. From June 2004 to November 2007, she was the Team Head of Marketing Team of E-banking Department of the Head Office; from November 2007 to May 2015, she was the Team Head of the Non-Bank Financial Institutions and Deputy General Manager of the Corporate Banking of Bank of China (Hong Kong) Limited; from May 2015 to August 2019, she was the Senior Manager and Deputy General Manager of the Network Finance Department of the Head Office; from August 2019 to November 2020, she was the Deputy General Manager of the Personal Digital Finance Platform. Deputy Chief Executive Officer of the Company since November 2020.

Systematic, sound and effective management

The Company has established a healthy, systematic and sustainable business model and has adopted strict project management, precise financial management, market-oriented human resources management systems and prudent risk management.

Strict project management

The Company has established a comprehensive management mechanism for the searching, planning, due diligence, management and disposal of projects.

With respect to project searching, the Company has adopted a top-down approach for the systematic selection of projects of key sectors and potential investments. At the same time, the Company worked side by side with the Group to build a direct financing strategic business unit, deepened cooperation in investment and loan linkage, cross border M&A and alternative asset allocation, etc.

With respect to project planning, the Company identifies and evaluates the investment value, business model, competitive advantages and sustainable development of the target companies and will form a project planning application.

With respect to due diligence of projects, the Company determines the reasonable framework, consideration and potential gain of the transactions through objective due diligence.

With respect to project approval, the Company has established a comprehensive approval system. Projects are approved by various authorities at different levels, including the board of directors, the risk management committee and senior management (investment committee) to separate the approval and management of investments. All members of the approval authorities are experienced experts. Operational departments are required to strictly comply with the policies and requirements of the approval authorities.

With respect to investment management, the Company provides value-added services to improve its profitability by improving the value of the investees through strategic planning, establishment of corporate structure and financial and operation management systems.

With respect to disposal of projects, the Company disposes of investments through various methods, including but not limited to IPO, repurchase from major shareholder and acquisition from third party to realise gains for further investments.

Prudent risk management

Having considered the development strategy, profit and income targets of the Company, as well as the risk profiles of the major investment sector and the industry, the Company balances its risks and gains under the principles of “rational, stable and prudent” with moderate risk exposure.

The Company has established different levels of risk management structure, including the board, the risk management committee, the management, risk management and compliance department. Each of the risk management bodies at different levels has well-defined responsibility to ensure the overall risk level is under control.

The Company has established three levels of control measures in relation to risk management. The first level takes the primary responsibility of the risk management. The second level designs the overall risk management policies including framework and procedure of the risk management, monitor and manage the responsibility of risk management, and provide guidance, training and supervision to the first level. The third level provides recommendations through auditing to first and second level.

The Company complies with the requirements of the Group to strengthen the process and practices relating to the management of major risks, such as project investment risks, market risks, concentration risks, operation risks, liquidity risks, balance sheet interest rate risks, balance sheet exchange rate risks, information technology risks and reputational risks in order to minimise the possibility of loss to the Company.

The objective of the Company is to ensure a reasonable balance between risk and return, and sustainable business development and maximum returns to the shareholders.

Precise financial management

The Company established a comprehensive budget management system, implemented and conveyed the Company's development strategy, systematically set business objectives, rationally allocated resources, and regularly monitors, analyses, and supervises budget execution. The Company strengthens the management of cost and expenses, and the scope of management covers capital cost, business cost, operating expenses, tax cost, etc. Strengthen asset and liability management and liquidity management, implement dynamic matching of assets and liabilities and two-way collaborative management mechanism; establish a group fund pool to achieve centralised fund management; strengthen the planning of the use of funds, maintain a reasonable level of liquidity provision, and establish a liquidity risk early warning mechanism and a liquidity emergency response mechanism.

Market-oriented human resource management

In terms of recruitment, the Company actively aligns with its strategy, focusing on global and market-leading target institutions, and continuing to build three talent pools of campus, group and market to comprehensively enhance the marketisation and professionalism of its work force.

With respect to performance management, different performance management systems are established for individual departments and subsidiaries to measure performance and to improve profitability and encourage improvements. Total performance assessment is conducted for individual employees. Compensation packages of the Company's personnel are continually improved in light with market levels in order to maintain competitiveness and fairness.

With respect to personnel training, the Company emphasises staff development by providing various training to its staff.

Development positioning of the Company

The Company is inspired by the National 14th Five-Year Plan and the Long-Range Objectives Through the Year 2035, the new "dual circulation" development strategy and the "One Body with Two Wings" development strategy of the Group and focuses on long-term value investment strategy. With integration, specialisation, marketization and fund development as development direction, driven by innovation and compliance management, the Company targets to become an excellent investment management company with market influence and acts as the main platform of the Group's direct investment business.

General

The Bank's Board of Directors currently comprises 15 members. There are four executive directors, five non-executive directors and six independent non-executive directors. The Bank's directors are elected at its shareholder meetings for a term of three years, which is renewable upon re-election. The Chairman of the Bank's Board of Directors is elected by simple majority of its directors.

The business address of each of the directors, supervisors and senior management named below is Bank of China Limited, No. 1 Fuxingmen Nei Dajie, Xicheng District, Beijing 100818, People's Republic of China.

Directors

The following table sets forth certain information concerning the Bank's directors.

Board of Directors

Name	Position
Liu Liange	Chairman
Liu Jin	Vice Chairman and President
Wang Wei	Executive Director and Executive Vice President
Lin Jingzhen	Executive Director and Executive Vice President
Zhao Jie	Non-executive Director
Xiao Lihong	Non-executive Director
Wang Xiaoya	Non-executive Director
Zhang Jiangang	Non-executive Director
Chen Jianbo	Non-executive Director
Wang Changyun	Independent Director
Angela Chao	Independent Director
Jiang Guohua	Independent Director
Martin Cheung Kong Liao	Independent Director
Chen Chunhua	Independent Director
Chui Sai Peng Jose	Independent Director

Liu Liange, has served as Chairman of the Board of Directors since July 2019. Mr. Liu joined the Bank in 2018. He served as Vice Chairman of the Board of Directors from October 2018 to July 2019 and President of the Bank from August 2018 to June 2019. Mr. Liu served as Vice Chairman and President of the Export-Import Bank of China from July 2015 to June 2018. Mr. Liu served as Vice President of the Export-Import Bank of China from March 2007 to February 2015. He also served as Director of the African Export-Import Bank from September 2007 to February 2015, Chairman of the Board of Supervisors of Sino-Italian Mandarin Capital Partners from March 2009 to June 2015, and Chairman of the Board of Directors of Regional Credit Guarantee and Investment Facility (Asia) from March 2014 to May 2015. Mr. Liu worked in PBOC for many years, successively serving as Deputy Director-General of the International Department of PBOC, President of the Fuzhou Central Sub-branch of PBOC and Director of the Fujian Branch of the SAFE, Director General of the Anti-Money Laundering Bureau (the Security Bureau) of PBOC. Mr. Liu served as President of Shanghai RMB Trading Unit from October 2018 to November 2019. He served as Vice Chairman of the board of directors of BOC Hong Kong (Holdings) Limited from December 2018 to July 2019 and has been serving as Chairman of the board of directors of BOC Hong Kong (Holdings) Limited since July 2019. Mr. Liu graduated from Graduate School of PBOC with a Master's Degree in Economics in 1987. He holds the title of Senior Economist.

Liu Jin, has served as Vice Chairman of the Board of Directors of the Bank since June 2021 and President of the Bank since April 2021. Prior to that, Mr. Liu served as Executive Director of China Everbright

Group from December 2019 to March 2021, President of China Everbright Bank from January 2020 to March 2021, and Executive Director of China Everbright Bank from March 2020 to March 2021. From September 2018 to November 2019, he worked at China Development Bank as its Executive Vice President. Mr. Liu had worked in Industrial and Commercial Bank of China (ICBC) for many years, serving as Deputy General Manager of its Shandong Branch, Vice Chairman, Executive Director, General Manager of ICBC (Europe) and General Manager of ICBC Frankfurt Branch, General Manager of the Investment Banking Department of its Head Office, and General Manager of its Jiangsu Branch. Mr. Liu graduated from Shandong University in 1993 with a Master of Arts degree. He holds the title of Senior Economist.

Wang Wei, has served as Executive Director of the Bank since June 2020 and Executive Vice President since December 2019. Mr. Wang joined the Bank in 2019. He served as Executive Director and Executive Vice President of Agricultural Bank of China Limited ("**ABC**") from February 2018 to November 2019 and began to serve as Executive Vice President of ABC from December 2013 and as a member of senior management of ABC from December 2011. Mr. Wang previously served in several positions in ABC, including Deputy General Manager of Ningxia Branch, Deputy General Manager of Gansu Branch, General Manager of Gansu Branch, General Manager of Xinjiang Branch, General Manager of Xinjiang Production and Construction Corps Branch, General Manager of the Office of ABC, General Manager of Hebei Branch, General Manager of the Internal Control and Compliance Department, General Manager of the Human Resources Department and Chief Officer of the Sannong Business. Mr. Wang graduated from Shaanxi Institute of Finance and Economics in 1983, and from Southwestern University of Finance and Economics with a Doctor's Degree in Economics in 2015. He holds the title of Senior Economist.

Lin Jingzhen, has served as Executive Director of the Bank since February 2019 and Executive Vice President of the Bank since March 2018. Mr. Lin joined the Bank in 1987. He served as Deputy Chief Executive of BOC Hong Kong (Holdings) Limited from May 2015 to January 2018 and served as General Manager of the Corporate Banking Department of the Bank from March 2014 to May 2015. He served as General Manager (Corporate Banking) of the Corporate Banking Unit of the Bank from October 2010 to March 2014. Mr. Lin served as Deputy General Manager of Corporate Banking Department and Corporate Banking Unit of the Bank. Mr. Lin has also been serving as Chairman of BOC International Holdings Limited since April 2018, as Chairman of BOC International (China) Co., Ltd. since May 2018, and as a Non-executive Director of BOC Hong Kong (Holdings) Limited since August 2018. He graduated from Xiamen University with a Bachelor's Degree in Economics in 1987 and obtained a Master of Business Administration degree from Xiamen University in 2000.

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

Xiao Lihong, has served as the Bank's Non-executive Director of the Bank since August 2017. Ms. Xiao has been serving as Non-executive Director of China Galaxy Securities Company Limited since February 2019, and as Director of China Galaxy Financial Holdings Company Limited since October 2018. From April 2014 to August 2017, she served as Inspector of the Current Account Management Department of the SAFE. She was Deputy Director-General of the Current Account Management Department of the SAFE from September 2004 to April 2014, and concurrently as Vice General Manager and Party Committee Member of the Beijing Branch of China Construction Bank from July 2011 to July 2012. She served successively as Deputy Chief of the Current Account Division and the Non-trade Foreign Exchange Management Division of the Supervision and Inspection Department, and Chief of the Business Supervision Division of the Current Account Management Department of the SAFE from October 1996 to September 2004. She graduated from the China

Central University of Finance and Economics in August 1988 with a Bachelor's Degree, and from the Central University of Finance and Economics and Peking University in September 2003 and July 2012, respectively, both with a Master's Degree.

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

Zhang Jiangang, has served as Non-executive Director of the Bank since July 2019. Mr. Zhang served as member of the Party Committee, Secretary of Party Discipline Committee, Deputy Secretary-General, and Chairman of the Financial Evaluation Committee of the China Appraisal Society from May 2016 to July 2019. From August 2014 to May 2016, Mr. Zhang served as Deputy Secretary-General of the China Appraisal Society. From September 2000 to August 2014, he worked in the Department of Personnel and Education of the Ministry of Finance, successively serving as the Principal Staff Member, Deputy Director and Secretary of the Department of Personnel and Education (Director of a Division), and Director of the Department of Cadre Education. From November 1998 to September 2000, Mr. Zhang served as a cadre of the editorial office of the State Assets Management of the Ministry of Finance. From July 1995 to November 1998, he served as a cadre of the Research Institute of the former State State-owned Assets Administration Bureau. Mr. Zhang graduated from the China Youth University of Political Studies in July 1995 with a Bachelor's Degree in Law and obtained a Master's Degree in Management from the Graduate School of the Chinese Academy of Fiscal Sciences of the Ministry of Finance in December 2002. He holds the title of Senior Economist.

Chen Jianbo, has served as Non-executive Director of the Bank since June 2020. Mr. Chen has served as Non-executive Director of ABC since January 2015. He previously served as Assistant Research Fellow and Deputy Division Chief, Institute of Development of the Rural Policy Research Office of the Secretariat of the CPC Central Committee and the Rural Development Research Centre of the State Council; Division Chief and Research Fellow of the Development Research Centre of the State Council; and Director-General of the General Office of the Central Leading Group for Financial and Economic Affairs and the Office of Central Rural Work Leading Group. He once led and participated in research and technical assistance projects sponsored by the World Bank, Asian Development Bank, European Union, United Nations Development Programme, United Nations Industrial Development Organisation and other international institutions. He also hosted a number of research projects in cooperation with institutions in the U.S. and Japan etc. He had multiple appointments as a consulting expert by the World Bank, Asian Development Bank and other institutions. Besides, he was a Visiting Scholar at Brandeis University, and a Visiting Research Fellow at Institute of Developing Economies in Japan and Asian Development Bank Institute. He received a PhD in Management from Renmin University of China ("**RUC**") in May 2005.

Wang Changyun, has served as Independent Director of the Bank since August 2016. Mr. Wang currently serves as professor and doctoral supervisor in finance at RUC, and the dean of Hanqing Advanced Institute of Economics and Finance, RUC. He served as a lecturer at RUC from 1989 to 1995 and as a lecturer at Business School, National University of Singapore from 1999 to 2005. He served successively as the Chair of Applied Finance Department of RUC, Director of China Financial Policy Research Centre (a key research base of Ministry of Education) and Executive Vice Dean of Hanqing Advanced Institute of Economics and Finance at

RUC from 2006 to 2016. Mr. Wang is currently also the Vice Chairman of China Investment Specialty Construction Association, Director of China Finance Annual Meeting Committee, Director of China Finance Association, Deputy Editor of Finance Research Quarterly, Deputy Editor of China Finance Research, and Deputy Editor of China Financial Review. He also serves as the standing committee member of Beijing Haidian District People's Political Consultative Conference, the Central Committee member of China Democratic League, the special auditor of State Auditing Administration, the independent non-executive director of Sunway Co., Ltd. (originally named as Sichuan Star Cable Co., Ltd.) and Beijing Haohua Energy Resource Co., Ltd. Mr. Wang has received social recognition and prizes including the Special Government Allowance of State Council, Best Paper Award of Chicago Board of Trade in 2001, and the "Middle Age Experts with National Outstanding Contribution", membership of "the Programme for New Century Excellent Talents" of Ministry of Education in 2004, "Financial Support of National Science Fund for Distinguished Young Scholars" in 2007, a member of the "New Century National Hundred, Thousand and Ten Thousand Talent Programme" in 2013, and the "Cheung Kong Distinguished Professor" of Ministry of Education in 2014. He obtained his Master degree in economics from RUC in July 1989 and Doctorate in Financial Economics from the University of London in January 1999.

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

Jiang Guohua, has served as Independent Director of the Bank since December 2018 and serves as Professor of Accounting at the Guanghua School of Management, Peking University. Currently he also serves as a member of China National MPAcc Education Steering Committee and Associate Dean of Peking University Graduate School. Mr. Jiang has successively served as Assistant Professor, Associate Professor and Professor of the Accounting Department of Guanghua School of Management, Peking University since 2002, during which he successively served as Director of the Yenching Academy, Executive Associate Dean and Director of the Yenching Academy from 2013 to 2017. From 2007 to 2010, he was a senior investment consultant at Bosera Fund Management Company. From 2010 to 2016, he served as independent director of Datang International Power Generation Co. Ltd. From 2011 to 2014, he was an academic advisor to the Global Valuation Institute of KPMG International. From 2014 to 2015, he was a member of the Global Agenda Council of the World Economic Forum. Currently he also serves as independent director of ZRF Fund Management Company Ltd. and China Merchants Life Insurance Company Ltd. Mr. Jiang was named National Leading Talent in Accounting by China Ministry of Finance (2012). He was an Elsevier Chinese Most Cited Researcher consecutively from 2014 to 2017. He was a member of the 17th Stock Issuance Review Committee of China Securities Regulatory Commission. Mr. Jiang graduated from Peking University in 1995 with a Bachelor's degree in Economics, received his Master's degree in Accounting from Hong Kong University of Science and Technology in 1997, and obtained his Doctor's degree in Accounting from the University of California, Berkeley in 2002.

Martin Cheung Kong Liao, has served as Independent Director of the Bank since September 2019. Mr. Liao was called to the Bar in England and Wales in 1984 and was called to the Bar in Hong Kong in 1985 and is a practicing barrister in Hong Kong. He has been serving as a Member of the Legislative Council of the Hong Kong Special Administrative Region since 2012. Mr. Liao has also been serving as a Steward of the Hong Kong Jockey Club since April 2013, an Independent Non-executive Director of Hang Lung Group Limited since November 2014, and Chairman of the Advisory Committee on Corruption of the Independent Commission Against Corruption since January 2019. Mr. Liao has been appointed as a Non-Official Member of the Executive Council of the Hong Kong Special Administrative Region since November 2016. He was appointed as Justice of the Peace in 2004, was awarded the Silver Bauhinia Star in 2014 and was awarded the Gold Bauhinia Star in 2019. He has been elected as Deputy of the Hong Kong Special Administrative Region to the 11th, 12th and 13th National People's Congress of the People's Republic of China. Mr. Liao previously served as Chairman of the Anti-Money Laundering and Counter Terrorist Financing Review Tribunal and Chairman of The Hong Kong Council for Accreditation of Academic and Vocational Qualifications. He graduated from University College London with a Bachelor of Economic Science (Hons) Degree in 1982 and a Master of Laws Degree in 1985.

Chen Chunhua, has served as Independent Director of the Bank since July 2020. Ms. Chen is currently professor of the National School of Development at Peking University, Dean of BiMBA Business School of the National School of Development at Peking University and Professor of the Business Administration School at South China University of Technology. She is also a visiting professor of the School of Business at National University of Singapore. From 2000 to 2003, Ms. Chen was Vice Dean of the College of Business Administration at South China University of Technology. From 2003 to 2004, she served as President of Shandong Liuhe Group. From 2006 to 2008, she served as Executive Dean of the School of Economics and Commerce at South China University of Technology. From 2006 to 2016, she served as an expert on the decision-making consultation for the Guangzhou Municipal Government. Ms. Chen has served as a non-executive director of SPT Energy Group Inc. (HK01251) (since 2013) and a non-executive director of Vtron Group Co., Ltd. (002308) (since 2013). She was an independent director of China Merchants Fund Management Co., Ltd., Welling Holding Limited, Guangzhou Zhujiang Brewery Co., Ltd. and Shunde Rural Commercial Bank, and she once served as the joint chairman and chief executive officer of New Hope Liuhe Co., Ltd. and a director of the Yunnan Baiyao Holding Ltd. Ms. Chen obtained a Bachelor's Degree of engineering in radio technology from South China Institute of Technology in 1986 and became a post-doctoral candidate in business administration of the Nanjing University Business School in 2005.

Chui Sai Peng Jose, has served as Independent Non-executive Director of the Bank since September 2020. Mr. Chui is currently the President of CAA City Planning & Engineering Consultants Ltd. of Macao, and Da Chang (Zhuhai) Concrete Pile Co., Ltd., CEO of Parafuturo de Macau Investment and Development Ltd., and Chairman of Board of Directors of Macao Young Entrepreneur Incubation Centre. He is also the Deputy of the Macao SAR to the 13th National People's Congress, Deputy of Legislative Assembly of the Macao SAR, and member of the Economic Development Committee of the Macao SAR. In addition, he serves as a member of the National Committee of China Association for Science and Technology, Vice-President of Board of Directors of Macao Chamber of Commerce, Vice-President of General Assembly of the Macao Association of Building Contractors and Developers, President of Association of Macao Engineering Consultant Companies. Mr. Chui served as the President of Hou Kong Junior Chamber in 1994 and President of Junior Chamber International Macao, China in 1999. He was the President of Committee for Building Appraisal of the Macao SAR from 2002 to 2015. He served as member and Vice-President of the Committee of Cultural Industries of the Macao SAR from 2010 to 2016. Currently he serves as Non-Executive Director of Luso International Banking Ltd. and Board Member of Macao Science Centre. Mr. Chui is a registered Urban Planner and Civil Engineer of Macao. He is also a registered Civil Engineer and Structural Engineer (Senior Engineer Level) of California, USA. Mr. Chui received his Bachelor's Degree in Civil Engineering from University of Washington in 1981 and received his Master's Degree in Civil Engineering from University of California, Berkeley in 1983. He graduated from Tsinghua University in 2002 with a Doctor's Degree in Urban Planning.

There are no potential conflicts of interest between any duties to the Bank of the Directors listed above and their private interests or other duties.

Board of Supervisors

The following table sets forth certain information concerning members of the Bank's Supervisors.

Name	Position
Zhang Keqiu	Chairman of the Board of Supervisors
Li Changlin	Employee Supervisor
Leng Jie	Employee Supervisor
Jia Xiangsen	External Supervisor
Zheng Zhiguang	External Supervisor

Zhang Keqiu, has served as the Chairman of the Board of Supervisors of the Bank since January 2021. Ms. Zhang joined the Bank in 2020. Ms. Zhang served as Executive Director and Executive Vice President of ABC from April 2019 to November 2020. She served as the Executive Vice President of ABC from July 2017. From June 2015 to April 2018, she served as Secretary to the Board of Directors of ABC. Before that, she successively served as the General Manager of the Asset and Liability Management Department, the General Manager of the Financial Accounting Department and the Chief Financial Officer of ABC. She graduated from Nankai University in 1988 with a Master's Degree in Economics. In addition, she holds the title of Senior Accountant.

Li Changlin, has served as Employee Supervisor of the Bank since December 2018. Mr. Li currently serves as General Manager of the Credit Approval Department of the Head Office and Director of Bank of China Group Investment Limited. He joined the Bank in September 1984 and used to serve as Deputy General Manager of the Risk Management Department of the Head Office and General Manager of the Credit Approval Division of the Risk Management Unit of the Head Office. He graduated from the finance major of Central University of Finance and Economics in 1984.

Leng Jie, has served as Employee Supervisor of the Bank since December 2018. Mr. Leng currently serves as General Manager of Hebei Branch of the Bank. He started working in November 1981 and joined the Bank in September 1988. He used to serve as Deputy General Manager of Shandong Branch, Deputy General Manager of Shanxi Branch, General Manager of Ningxia Branch and General Manager of Chongqing Branch of the Bank. He graduated from the economics administration major of Shandong Institute of Light Industry in 1999 and the accounting major of University of Jinan in 2009.

Jia Xiangsen, has served as External Supervisor of the Bank since May 2019. Mr. Jia had successively worked for PBOC and ABC. From December 1983 to April 2008, Mr. Jia was vice president of the Fengtai District sub-branch of PBOC Beijing Branch, and held various positions at ABC Beijing Branch, including, among others, deputy head of Fengtai District sub-branch, deputy division chief at the branch, president of Dongcheng District sub-branch, and vice president of the branch. He was also general manager of the corporate banking department of ABC head office and president of ABC Guangdong Provincial branch. From April 2008 to March 2010, Mr. Jia served as Head of Audit Bureau of the ABC Head Office. From March 2010 to March 2014, Mr. Jia was concurrently chief audit executive and head of the audit bureau at the ABC head office. Mr. Jia has been an external supervisor of the China CITIC Bank and an independent director of China Life Insurance Company Limited. He obtained his master's degree in monetary banking from the Chinese Academy of Social Sciences. Mr. Jia holds the title of Senior Economist.

Zheng Zhiguang, has served as External Supervisor of the Bank since May 2019. Mr. Zheng had successively worked for PBOC and ICBC. From March 1979 to August 2004, Mr. Zheng served as deputy section chief of the Luwan District sub-branch of PBOC Shanghai Branch, and held various positions at ICBC, including deputy division chief of Luwan District sub-branch of Shanghai Branch, division chief and vice president at the Shanghai Branch. From September 2004 to August 2009, Mr. Zheng served as Head of Internal Audit Bureau of the ICBC Shanghai branch. From September 2009 to January 2013, Mr. Zheng served as head of the precious metals business department of ICBC. From 2013 to 2014 Mr. Zheng served as a director of ICBC

International Holdings Limited and a Chairman of the Board of Supervisors of ICBC AXA Life Insurance Co., Ltd. He obtained a Master of Business Administration degree from Fudan University. Mr. Zheng has qualification of senior economist.

Senior Management Members

The following table sets forth certain information concerning members of the Bank's senior management.

Name	Position
Liu Jin	Vice Chairman and President
Wang Wei	Executive Vice President
Lin Jingzhen	Executive Vice President
Chen Huaiyu	Executive Vice President
Wang Zhiheng	Executive Vice President
Liu Qiuwan	Chief Information Officer
Liu Jiandong	Chief Risk Officer
Zhuo Chengwen	Chief Audit Officer
Mei Feiqi	Secretary to the Board of Directors and Company Secretary

Liu Jin – for Mr. Liu Jin's biography, please refer to "*Directors, Management and Supervisors – Liu Jin*".

Wang Wei – for Mr. Wang Wei's biography, please refer to "*Directors, Management and Supervisors – Wang Wei*".

Lin Jingzhen – for Mr. Lin Jingzhen's biography, please refer to "*Directors, Management and Supervisors – Lin Jingzhen*".

Chen Huaiyu, has served as Executive Vice President of the Bank since April 2021. Mr. Chen joined the Bank in 1997. He served as General Manager of Bank of China Sydney Branch, Director of Bank of China (Australia) Limited, and Director of Bank of China (New Zealand) Limited from November 2017 to February 2021. Prior to that, Mr. Chen served as Assistant General Manager and Credit Risk Officer of Guangdong Branch of the Bank, Standing Deputy General Manager, General Manager and Executive Director of Bank of China (Hungary) Limited, as well as General Manager of Bank of China Hungarian Branch successively. Mr. Chen graduated from Beijing Foreign Studies University in 1992 and obtained a Master's Degree in Economics from University of International Business and Economics in 1999.

Wang Zhiheng, has serve as General Manager of Beijing Branch of the Bank from May 2021. He served as Employee Supervisor of the Bank from December 2018 to June 2021, General Manager of the Human Resources Department of the Head Office of the Bank from July 2018 to December 2020, General Manager of Qinghai Branch of the Bank from July 2015 to September 2018. Prior to that, Mr. Wang served as Deputy General Manager of the Human Resources Department of the Head Office of the Bank and Deputy General Manager of Guangdong Branch of the Bank. Mr. Wang graduated and obtained a Master's degree in Finance from Nankai University in 1999.

Liu Qiuwan, has served as Chief Information Officer of the Bank since June 2018. Mr. Liu joined the Bank in 1994. He served as General Manager of Information Technology Department of the Bank since December 2014. From September 2009 to December 2014, he served as General Manager of the Software Centre of the Bank. Mr. Liu previously served as Deputy General Manager of Ningxia Branch and CEO of BOCSOFT Information Industrial (Shenzhen) Co., Ltd. He graduated from Xi'an Mining College with a Bachelor's Degree in Engineering in 1982. He holds the title of Senior Engineer.

Liu Jiandong, has served as Chief Risk Officer of the Bank since February 2019. Mr. Liu joined the Bank in 1991. Since March 2014, he has served as General Manager of the Credit Management Department of the Bank. Mr. Liu served as General Manager (Investment Banking) of the Corporate Banking Unit of the Bank from February 2011 to March 2014. Mr. Liu previously served as Deputy General Manager of the Corporate Banking Department and Corporate Banking Unit of the Bank. He graduated from RUC in 1991 with a Bachelor's Degree in Economics and obtained a Master's Degree in Economics from RUC in 2000.

Zhuo Chengwen, has served as Chief Risk Officer of BOC Hong Kong (Holdings) Limited from November 2019 to February 2021. Mr. Zhuo joined the Bank in 1995. Mr. Zhuo served as Chief Executive and Executive Director of BOCG Insurance from June 2016 to November 2019, and as General Manager of the Financial Management Department of the Bank from December 2014 to June 2016. Prior to that, Mr. Zhuo served as Deputy General Manager of New York Branch, Deputy General Manager of the Financial Management Department of the Bank, Chief Financial Officer of BOC Hong Kong (Holdings) Limited. Mr. Zhuo graduated from Peking University with a Master's Degree in Economics in 1995, and obtained a Master's Degree in Business Administration from the City University of New York in 2005. He has the qualification of Certified Public Accountant.

Mei Feiqi, has served as Secretary to the Board of Directors of the Bank since April 2018 and concurrently serves as Company Secretary of the Bank. Mr. Mei joined the Bank in 1998. He served as Vice President of the Beijing Branch of the Bank, General Manager of the Wealth Management and Personal Banking Department under the Personal Banking Unit of the Bank, and General Manager of the Executive Office (Spokesman) of the Bank. Prior to joining the Bank, he worked at the Ministry of Geology and Mineral Resources and the General Office of the State Council. He graduated from Chengdu University of Technology with a Bachelor's Degree and had on-the-job postgraduate education. He holds the title of senior economist.

Board Committees

The Bank's Board of Directors delegates certain responsibilities to various committees. The Bank's Board of Directors has set up the Strategic Development Committee, Corporate Culture and Consumer Protection Committee, Audit Committee, Risk Policy Committee, Personnel and Remuneration Committee and Connected Transactions Control Committee. These committees are constituted by certain Directors and report to the Board of Directors. In March 2015, the Board of Directors established the U.S. Risk and Management Committee under its Risk Policy Committee to supervise risk management of the U.S. operations of the Bank. As required by the Bank's Articles of Association, each committee must have at least three Directors.

SUBSTANTIAL SHAREHOLDERS

Disclosure of Shareholding under H-Share Regulation Substantial Shareholder Interests

The register maintained by the Bank pursuant to section 336 of the Securities and Futures Ordinance (the "**SFO**"), recorded that, as at 30 June 2021, the shareholders indicated in the following table were substantial shareholders (as defined in the SFO) having the following interests in shares of the Bank:

Name of shareholder	Capacity (types of interest)	Number of shares held/ Number of underlying shares	Type of shares	Percentage of total issued A-Shares capital	Percentage of total issued H-Shares capital	Percentage of total issued ordinary share capital
		(unit: share)[2]				
Central Huijin Investment Ltd	Beneficial owner	188,461,533,607	A	89.42	–	64.02
	Interest of controlled corporations	1,810,024,500	A	0.86	–	0.61
	Total	190,271,558,107	A	90.28	–	64.63
National Council for Social Security Fund . . .	Beneficial owner	5,798,893,213	H	–	6.93	1.97
BlackRock[1]	Interest of controlled corporations	4,927,663,915	H	–	5.89	1.67
		22,172,000(S)	H	–	0.03	0.01

Notes:

(1) BlackRock, Inc. holds the entire issued share capital of BlackRock Holdco 2 Inc., while BlackRock Holdco 2 Inc. holds the entire issued share capital of BlackRock Financial Management, Inc. Thus BlackRock, Inc. and BlackRock Holdco 2 Inc. are deemed to have equal interests in shares of the Bank as BlackRock Financial Management, Inc. under the SFO. BlackRock, Inc. holds a long position of 4,927,663,915 H Shares and a short position of 22,172,000 H Shares of the Bank through BlackRock Financial Management, Inc. and other corporations controlled by it. In the long position of 4,927,663,915 H Shares, 74,701,000 H Shares are held through derivatives. In the short position of 22,172,000 H Shares, 14,620,000 H Shares are held through derivatives.

(2) "S" denotes short position.

Unless stated otherwise, all interests stated above represented long positions. Save as disclosed above, as at 30 June 2021, no other interests (including derivative interests) or short positions were recorded in the register maintained by the Bank under section 336 of the SFO.

Controlling Shareholder of the Bank

Central Huijin Investment Ltd. ("Huijin") is a state-owned company established under the Company Law of the PRC. Huijin was established on 16 December 2003. The current legal representative is Mr. PENG Chun. Huijin's Unified Social Credit Code is 911000007109329615. Wholly-owned by China Investment Corporation, Huijin makes equity investments in major state-owned financial institutions, as authorised by the State Council. To the extent of its capital contribution, Huijin exercises the rights and fulfils the obligations as an investor on behalf of the State, in accordance with applicable laws aimed at preserving and enhancing the value of state-owned financial assets. Huijin neither engages in other business activities nor intervenes in the daily operation of the key state-owned financial institutions of which it is the controlling shareholder.

TAXATION

The following is a general description of certain tax considerations relating to the Notes and is based on law and relevant interpretation thereof in effect as at the date of this Offering Circular all of which are subject to changes and does not constitute legal or taxation advice. It does not purport to be a complete analysis of all tax considerations relating to the Notes, whether in those countries or elsewhere. Prospective purchasers of the Notes should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of the Notes and receiving payments of interest, principal and/or other amounts under the Notes and the consequences of such actions under the tax laws of those countries. It is emphasised that none of the Issuer, the Company nor any other persons involved in the Programme accepts responsibility for any tax effects or liabilities resulting from the subscription for purchase, holding or disposal of the Notes.

Macau

No taxes of any nature (including without limitation stamp or any issuance, transfer, income, withholding or other taxes) are payable by or on behalf of the Noteholders to the government of the Macau SAR or any of its agencies in connection with (a) the creation, issue or delivery of the Notes pursuant to the Offering Circular and the sale thereof and the giving by the Guarantor of the Guarantee of the Notes, (b) the consummation of the transactions contemplated by the Offering Circular, the Dealer Agreement, the Deed of Guarantee or the Guarantee of the Notes, or (d) the resale and delivery of such Notes by the Noteholders in the manner contemplated in the Offering Circular.

British Virgin Islands

The following is a discussion on certain British Virgin Islands income tax consequences of an investment in the Notes. The discussion is a general summary of present law, which is subject to prospective and retroactive change. It is not intended as tax advice, does not consider any investor's particular circumstances, and does not consider tax consequences other than those arising under British Virgin Islands law.

Under existing British Virgin Islands laws:

(i) Payments of interest and principal on the Notes will not be subject to taxation in the British Virgin Islands and no withholding will be required on the payment of interest and principal to any holder of the Notes nor will gains derived from the disposal of the Notes be subject to British Virgin Islands income or corporation tax, provided that the payments are made to persons who are not resident in the British Virgin Islands.

(ii) No estate, inheritance, succession or gift tax, rate, duty, levy or other charge is payable by persons who are not persons resident in the British Virgin Islands with respect to the Notes.

(iii) If neither the Issuer nor any subsidiary holds an interest in real estate in the British Virgin Islands, no stamp duty is payable in respect of the issue of the Notes or on an instrument of transfer in respect of the Notes.

(iv) There are currently no withholding taxes or exchange control regulations in the British Virgin Islands applicable to the Issuer.

EU Directive on the Taxation of Savings Income

Under EC Council Directive 2003/48/EC on the taxation of savings income, each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in that other Member State; however, for a transitional period, Austria and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at a rate of 35 per cent. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments. Luxembourg has announced that it will no longer apply the withholding tax system as from 1 January 2015 and will provide details of payments of interest (or similar income) as from this date.

A number of non-EU countries and certain dependent or associated territories of certain Member States including British Virgin Islands, have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident or certain limited types of entity established in one of those territories.

The European Commission has proposed certain amendments to the Directive, which may, if implemented, amend or broaden the scope of the requirements described above. Investors who are in any doubt as to their position should consult their professional advisers.

FATCA Withholding

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a "foreign financial institution" may be required to withhold on certain payments it makes ("foreign passthru payments") to persons that fail to meet certain certification, reporting, or related requirements. The Bank is a foreign financial institution for these purposes. A number of jurisdictions have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("IGAs"), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, such withholding would not apply prior to the date that is two years after the date on which final regulations defining foreign passthru payments are published in the U.S. Federal Register and Notes characterised as debt (or which are not otherwise characterised as equity and have a fixed term) for U.S. federal tax purposes that are issued on or prior to the date that is six months after the date on which final regulations defining foreign passthru payments are published generally would be grandfathered for purposes of FATCA withholding unless materially modified after such date. However, if additional Notes (as described under "Terms and Conditions of the Notes – Further Issues") that are not distinguishable from previously issued Notes are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Notes, including the Notes offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA. Holders should consult their own tax advisors regarding how these rules may apply to their investment in the Notes.

The proposed financial transactions tax ("FTT")

On 14 February 2013, the European Commission published a proposal (the "Commission's Proposal") for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "participating Member States").

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in Notes (including secondary market transactions) in certain circumstances.

The issuance and subscription of Notes should, however, be exempt. Under the Commission's Proposal the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

A joint statement issued in May 2014 by ten of the eleven participating Member States indicated an intention to implement the FTT progressively, such that it would initially apply to shares and certain derivatives, with this initial implementation occurring by 1 January 2016.

The FTT proposal remains subject to negotiation between the participating Member States. It may therefore be altered prior to any implementation. Additional EU Member States may decide to participate.

Prospective holders of Notes are advised to seek their own professional advice in relation to the FTT.

People's Republic of China

The following summary describes the principal PRC tax consequences of ownership of the Notes by beneficial owners who, or which, are not residents of mainland China for PRC tax purposes. These beneficial owners are referred to as non-PRC Noteholders in this section. In considering whether to invest in the Notes, potential purchasers should consult their individual tax advisors with regard to the application of PRC tax laws to their particular situations as well as any tax consequences arising under the laws of any other tax jurisdiction.

Tax on the Interest

Pursuant to the Enterprise Income Tax Law promulgated on 16 March 2007 and effective on 1 January 2008 and amended on 29 December 2018 and the PRC Individual Income Tax Law, as recently amended on 31 August 2018, and their implementation regulations, an income tax is imposed on payment of interest by way of withholding in respect of debt securities, issued by PRC enterprises to non-resident Noteholders, including non-resident enterprises and non-resident individuals.

On 23 March 2016, the Ministry of Finance and the State Administration of Taxation ("SAT") issued the Circular of Full Implementation of Business Tax to VAT Reform (《關於全面推開營業稅改征增值稅試點的通知》) (Caishui [2016] No. 36, "Circular 36") which confirms that business tax was replaced by VAT from 1 May 2016. Since then, the income derived from the provision of financial services which attracted business tax will be entirely replaced by, and subject to, VAT.

According to Circular 36, the entities and individuals providing the services within China shall be subject to VAT. The services are treated as being provided within China where either the service provider or the service recipient is located in China. The services subject to VAT include the provision of financial services such as the provision of loans. It is further clarified under Circular 36 that the "loans" refers to the activity of lending capital for another's use and receiving the interest income thereon. Based on the definition of "loans" under Circular 36, the issuance of Notes is likely to be treated as the holders of the Notes providing loans to the relevant Issuer.

The Issuer and the Guarantor, as applicable, are not obliged to withhold PRC income tax at the rate up to 10 per cent. (for non-resident enterprises) or 20 per cent. (for non-resident individuals) on the payments of interest made by it to non-resident Noteholders provided that the Issuer and the Guarantor is not treated as a PRC "resident enterprise" and the payments are made outside of the territory of PRC. However, this is subject to the interpretation by the PRC tax authorities. If the PRC tax authorities treated the Issuer or the Guarantor as a PRC "resident enterprise" or take an interpretation that the interest on the Notes payable by the Issuer or the Guarantor is treated as income sourced from the PRC, a withholding tax may be imposed on such interest and the Issuer or the Guarantor will pay additional amounts to holders of the Notes so that holders of the Notes would receive the full amount of the scheduled payment, as further set out in the Terms and Conditions of the Notes. If the Bank shall perform the obligation of paying interest of the Notes in the event and only when the Guarantor fails to perform its obligations of paying the interest of the Notes, the Bank will be obliged to withhold PRC income tax at a rate of 10 per cent. (for non-resident enterprises) or 20 per cent. (for non-resident individuals) (unless a lower rate is available under an applicable tax treaty) and PRC VAT tax and local levies at the rate of 6.72 per cent. of the interest component of the amount payable by the Bank to the Noteholders if the PRC tax authority views such component as an interest income arising within the territory of the PRC.

Pursuant to the EIT Law, IIT Law and the VAT reform detailed above, the Issuer or the Guarantor or the Bank shall withhold EIT or IIT, (should such tax apply) from the payments of interest in respect of the Notes for any non-PRC-resident Noteholder and the Issuer or the Guarantor or the Bank shall withhold VAT (should such tax apply) from the payments of interest in respect of the Notes for any Noteholders located outside of the PRC. However, in the event that the Issuer or the Guarantor or the Bank are required to make such a deduction or withholding (whether by way of EIT, IIT or VAT otherwise), the Issuer or the Guarantor or the Bank has agreed to pay such additional amounts as will result in receipt by the Noteholders of such amounts after such withholding or deduction as would have been received by them had no such withholding or deduction been required. For more information, see "*Terms and Conditions of the Notes – Condition 13 (Taxation)*".

Tax on the Gains

Under the EIT Law and its implementation rules, any gains realised on the transfer of the Notes by holders who are deemed under the EIT Law as non-PRC resident enterprises may be subject to the EIT Law if such gains are regarded as incomes derived from sources within the PRC. Under the EIT Law, a "non-PRC resident enterprise" means an enterprise established under the laws of a jurisdiction other than the PRC and whose actual administrative organisation is not in the PRC, which has established offices or premises in the PRC but has generated income not related to such offices or premises, or which has not established any offices or premises in the PRC but has obtained incomes derived from sources within the PRC. There remains uncertainty as to whether the gains realised from the transfer of the Notes would be treated as incomes derived from sources within the PRC and be subject to such PRC income tax. This will depend on how the PRC tax authorities interpret, apply or enforce the EIT Law and its implementation rules.

In addition, under the IIT Law of the PRC and its implementation regulations, any individual who has no domicile in the PRC and does not live within the territory of the PRC or who has no domicile in the PRC but has lived within the territory of China for less than one year, shall pay individual income tax for income obtained within the PRC. There remains uncertainty as to whether the gains realised from the transfer of the Notes would be treated as income obtained within the PRC and be subject to such PRC income tax.

If such gains are subject to PRC income taxes, the 10 per cent. enterprise income tax rate and 20 per cent. individual income tax rate, respectively, will apply unless there is an applicable tax treaty or arrangement that reduces or exempts such income tax. The taxable income will be the balance of the total income obtained from the transfer of the Notes minus all costs and expenses that are permitted under PRC tax laws and regulations to be deducted from the income. According to the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income (the "Arrangement"), which took effect for income generated in the PRC on 1 January 2007, holders of the Notes who are Hong Kong residents, including both enterprise holders and individual holders, will be exempted from PRC income tax on capital gains derived from a sale of the Notes.

Where a holder of the Notes who is an entity or individual located outside of the PRC resells the Notes to an entity or individual located outside of the PRC and derives any gain, since neither the service provider nor the service recipient is located in the PRC, theoretically VAT prescribed under Circular 36 does not apply and the Issuer does not have the obligation to withhold the VAT or the local levies. However, there is uncertainty as to the applicability of VAT if either the seller or buyer of Notes is located inside the PRC.

Stamp Duty

No PRC stamp duty will be chargeable upon the issue or transfer (for so long as the register of Noteholders is maintained outside the PRC, no transaction documents are signed in the PRC and the governing law of the transaction documents is not PRC law) of a Note.

Hong Kong

Withholding Tax

No withholding tax is payable in Hong Kong in respect of payments of principal or interest on the Notes or in respect of any capital gains arising from the sale of the Notes.

Profits Tax

Hong Kong profits tax is chargeable on every person carrying on a trade, profession or business in Hong Kong in respect of profits arising in or derived from Hong Kong from such trade, profession or business (excluding profits arising from the sale of capital assets).

Interest on the Notes may be deemed to be profits arising in or derived from Hong Kong from a trade, profession or business carried on in Hong Kong in the following circumstances:

(i) interest on the Notes is derived from Hong Kong and is received by or accrues to a corporation carrying on a trade, profession or business in Hong Kong;

(ii) interest on the Notes is derived from Hong Kong and is received by or accrues to a person, other than a corporation, carrying on a trade, profession or business in Hong Kong and is in respect of the funds of that trade, profession or business;

(iii) interest on the Notes is received by or accrues to a financial institution (as defined in the Inland Revenue Ordinance (Cap. 112) of Hong Kong (the "IRO")) and arises through or from the carrying on by the financial institution of its business in Hong Kong; or

(iv) interest on the Notes is received by or accrues to a corporation, other than a financial institution, and arises through or from the carrying on in Hong Kong by the corporation of its intra-group financing business (within the meaning of section 16(3) of the IRO).

Sums received by or accrued to a financial institution by way of gains or profits arising through or from the carrying on by the financial institution of its business in Hong Kong from the sale, disposal and redemption of Notes will be subject to Hong Kong profits tax. Sums received by or accrued to a corporation, other than a financial institution, by way of gains or profits arising through or from the carrying on in Hong Kong by the corporation of its intra-group financing business (within the meaning of section 16(3) of the IRO) from the sale, disposal or other redemption of Notes will be subject to Hong Kong profits tax.

Sums derived from the sale, disposal or redemption of Notes will be subject to Hong Kong profits tax where received by or accrued to a person, other than a financial institution, who carries on a trade, profession or business in Hong Kong and the sum has a Hong Kong source unless otherwise exempted. The source of such sums will generally be determined by having regard to the manner in which the Notes are acquired and disposed of.

In certain circumstances, Hong Kong profits tax exemptions (such as concessionary tax rates) may be available. Investors are advised to consult their own tax advisors to ascertain the applicability of any exemptions to their individual position.

Stamp Duty

Stamp duty will not be payable on the issue of Bearer Notes provided that either:

(i) such Bearer Notes are denominated in a currency other than the currency of Hong Kong and are not repayable in any circumstances in the currency of Hong Kong; or

(ii) such Bearer Notes constitute loan capital (as defined in the Stamp Duty Ordinance (Cap. 117) of Hong Kong (the "SDO")).

If stamp duty is payable, it is payable by the Issuer on the issue of Bearer Notes at a rate of 3 per cent. of the market value of the Bearer Notes at the time of issue. No stamp duty will be payable on any subsequent transfer of Bearer Notes.

No stamp duty is payable on the issue of Registered Notes. Stamp duty may be payable on any transfer of Registered Notes if the relevant transfer is required to be registered in Hong Kong. Stamp duty will, however, not be payable on any transfer of Registered Notes provided that either:

(i) such Registered Notes are denominated in a currency other than the currency of Hong Kong and are not repayable in any circumstances in the currency of Hong Kong; or

(ii) such Registered Notes constitute loan capital (as defined in the SDO).

If stamp duty is payable in respect of the transfer of Registered Notes it will be payable at the rate of 0.26 per cent. (of which 0.13 per cent. is payable by the seller and 0.13 per cent. is payable by the purchaser) normally by reference to the consideration or its value, whichever is higher. In addition, stamp duty is payable at the fixed rate of HK$5 on each instrument of transfer executed in relation to any transfer of the Registered Notes if the relevant transfer is required to be registered in Hong Kong.

SUBSCRIPTION AND SALE

Summary of Dealer Agreement

The Dealers have, in a dealer agreement (the "Dealer Agreement") dated 19 October 2021, agreed with the Issuer and the Company a basis upon which they or any of them may from time to time agree to purchase Notes. Any such agreement will extend to those matters stated under "Form of the Notes" and "*Terms and Conditions of the Notes*". The Issuer and the Company will pay each relevant Dealer a commission as agreed between them in respect of Notes subscribed by it. Where the Issuer agrees to sell to the Dealer(s), who agree to subscribe and pay for, or to procure subscribers to subscribe and pay for, Notes at an issue price (the "Issue Price"), any subsequent offering of those Notes to investors may be at a price different from such Issue Price. The Issuer and the Company have agreed to reimburse the Arrangers for certain of their expenses incurred in connection with the establishment, and any future update, of the Programme and the Dealers for certain of their activities in connection with the Programme. The commissions in respect of an issue of Notes on a syndicated basis may be stated in the relevant Pricing Supplement.

The Issuer and the Company have agreed to indemnify the Dealers against certain liabilities in connection with the offer and sale of the Notes. The Dealer Agreement entitles the Dealers to terminate any agreement that they make to subscribe Notes in certain circumstances prior to payment for such Notes being made to the Issuer.

In order to facilitate the offering of any Tranche of the Notes, certain persons participating in the offering of the Tranche may engage in transactions that stabilise, maintain or otherwise affect the market price of the relevant Notes during and after the offering of the Tranche. Specifically such persons may over allot or create a short position in the Notes for their own account by selling more Notes than have been sold to them by the Issuer. Such persons may also elect to cover any such short position by purchasing Notes in the open market. In addition, such persons may stabilise or maintain the price of the Notes by bidding for or purchasing Notes in the open market and may impose penalty bids, under which selling concessions allowed to syndicate members or other broker dealers participating in the offering of the Notes are reclaimed if Notes previously distributed in the offering are repurchased in connection with stabilisation transactions or otherwise. The effect of these transactions may be to stabilise or maintain the market price of the Notes at a level above that which might otherwise prevail in the open market. The imposition of a penalty bid may also affect the price of the Notes to the extent that it discourages resales thereof. No representation is made as to the magnitude or effect of any such stabilising or other transactions. Such transactions, if commenced, may be discontinued at any time. Stabilisation activities may only be carried on by the Stabilisation Manager(s) named in the applicable Pricing Supplement (or persons acting on behalf of any Stabilisation Manager(s)) and only for a limited period following the Issue Date of the relevant Tranche of Notes.

In connection with each Tranche of Notes issued under the Programme, the Dealers or certain of their affiliates may purchase Notes and be allocated Notes for asset management and/or proprietary purposes but not with a view to distribution. Further, the Dealers or their respective affiliates may purchase Notes for its or their own account and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to such Notes and/or other securities of the Issuer, the Company or their respective subsidiaries or affiliates at the same time as the offer and sale of each Tranche of Notes or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Tranche of Notes to which a particular Pricing Supplement relates (notwithstanding that such selected counterparties may also be purchasers of such Tranche of Notes).

Selling Restrictions

United States of America

Each Dealer has acknowledged, and each further Dealer appointed under the Programme will be required to acknowledge that the Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

Dealers' compliance with United States securities laws

In relation to each Tranche of Notes:

(a) *Offers/sales only in accordance with Regulation S*: each Dealer has represented, warranted and undertaken, and each further Dealer appointed under the Programme will be required to represent, warrant and undertake to the Issuer and the Company that it has offered and sold the Notes, and will offer and sell the Notes:

(i) Original distribution: as part of their distribution, at any time; and

(ii) Outside original distribution: otherwise, until 40 days after the issue date,

only in accordance with Rule 903 of Regulation S under the Securities Act and, accordingly, that:

(A) *No directed selling efforts*: neither it nor any of its affiliates (including any person acting on behalf of such Dealer or any of its affiliates) has engaged or will engage in any directed selling efforts with respect to the Notes; and

(B) *Offering restrictions*: it and its affiliates have complied and will comply with the offering restrictions requirement of Regulation S under the Securities Act; and

(b) *Prescribed form of confirmation:* each Dealer has undertaken, and each further Dealer appointed under the Programme will be required to undertake to the Issuer and the Company that, at or prior to confirmation of sale, it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration which purchases Notes from it during the distribution compliance period a confirmation or notice in substantially the following form:

"The Securities covered hereby have not been and will not be registered under the United States Securities Act of 1933 (the "Securities Act") and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons, (a) as part of their distribution at any time or (b) otherwise until 40 days after the completion of the distribution of the Tranche of Notes of which such Notes are a part, as determined by [*Name of Dealer or Dealers, as the case may be*], except in either case in accordance with Regulation S under the Securities Act. Terms used above have the meanings given to them by Regulation S"; and

(c) *Completion of distribution:* each Dealer which has purchased Notes of such Tranche in accordance with this Agreement shall determine and certify to the Fiscal Agent or the Issuer the completion of the distribution of the Notes of such Tranche purchased by it. In the case of a Relevant Agreement between the Issuer and more than one Dealer, the Fiscal Agent or the Issuer shall notify each Relevant Dealer when all Relevant Dealers have certified as provided in this paragraph. In order to facilitate compliance by each Dealer with the foregoing, the Issuer undertakes that, prior to such certification with respect to such Tranche, it will notify each Dealer in writing of each acceptance by the Issuer of an offer to purchase and of any issuance of, Notes or other debt obligations of the Issuer which are denominated in the same currency or composite currency and which have substantially the same interest rate and maturity date as the Notes of such Tranche.

Where the relevant Pricing Supplement for Bearer Notes specifies that the TEFRA D Rules are applicable, the Bearer Notes will be issued in accordance with the provisions of the TEFRA D Rules. Where the *relevant Pricing Supplement for Bearer Notes specifies that the TEFRA C Rules are applicable, the Bearer Notes will be issued in accordance with the provisions of TEFRA C Rules. Where the relevant Pricing Supplement specifies that TEFRA is not applicable, the Notes will not be issued in accordance with the provisions of either the TEFRA D Rules or the TEFRA C Rules.*

The TEFRA D Rules

Where the TEFRA D Rules are specified in the relevant Pricing Supplement as being applicable in relation to any Tranche of Notes, each Dealer has represented, warranted and undertaken, and each further Dealer appointed under the Programme will be required to represent, warrant and undertake to the Issuer and the Company that:

(a) *Restrictions on offers etc.:* except to the extent permitted under the TEFRA D Rules:

(i) *No offers etc. to United States or United States persons:* it has not offered or sold, and during the restricted period will not offer or sell, any Notes to a person who is within the United States or its possessions or to a United States person; and

(ii) *No delivery of definitive Notes in the United States:* it has not delivered and will not deliver in definitive form within the United States or its possessions any Notes sold during the restricted period,

(b) *Internal procedures:* it has, and throughout the restricted period will have, in effect procedures reasonably *designed* to ensure that its employees or agents who are directly engaged in selling Notes are aware that the Notes may not be offered or sold during the restricted period to a person who is within the United States or its possessions or to a United States person, except as permitted by the TEFRA D Rules; and

(c) *Additional provision if United States person:* if it is a United States person, it is acquiring the Notes for the purposes of resale in connection with their original issuance and, if it retains Notes for its own account, it will only do so in accordance with the requirements of United States Treasury Regulation §1.163-5(c)(2)(i)(D)(6),

and, with respect to each affiliate of such Dealer that acquires Notes from such Dealer for the purpose of offering or selling such Notes during the restricted period, such Dealer has undertaken, and each further Dealer appointed under the Programme will be required to undertake to the Issuer and the Company that it will obtain from such affiliate for the benefit of the Issuer and the Company the representations, warranties and undertakings contained in paragraph(a) (*Restrictions on offers, etc.*), paragraph(b) (*Internal procedures*) and paragraph(c) (Additional provision of United States person).

The TEFRA C Rules

Where the TEFRA C Rules are specified in the relevant Pricing Supplement as being applicable in relation to any Tranche of Notes, the Notes must, in accordance with their original issuance, be issued and delivered outside the United States and its possessions and, accordingly, each Dealer has represented, warranted and undertaken, and each further Dealer appointed under the Programme will be required to represent, warrant and undertake to Issuer and the Company that, in connection with the original issuance of the Notes:

(a) *No offers etc. in United States:* it has not offered, sold or delivered, and will not offer, sell or deliver, directly or indirectly, any Notes within the United States or its possessions; and

(b) *No communications with United States:* it has not communicated, and will not communicate, directly or indirectly, with a prospective purchaser if such Dealer or such prospective purchaser is within the United States or its possessions and will not otherwise involve the United States office of such Dealer in the offer and sale of Notes.

Interpretation

Terms used in the paragraph "*Dealers' compliance with United States securities laws*" have the meanings given to them by Regulation S under the Securities Act. Terms used in the paragraphs "*The TEFRA D Rules*" and "*The TEFRA C Rules*" have the meanings given to them by the United States Internal Revenue Code and regulations thereunder, including the TEFRA C Rules and the TEFRA D Rules.

Index-, commodity- or currency-linked Notes

Each issuance of index-, commodity- or currency-linked Notes shall be subject to additional U.S. selling restrictions as the relevant Dealer(s) shall agree as a term of the issuance and purchase of such Notes. Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it shall offer, sell and deliver such Notes only in compliance with such additional U.S. selling restrictions.

Prohibition of sales to EEA Retail Investors

Unless the Pricing Supplement in respect of any Notes specifies "Prohibition of Sales to EEA Retail Investors" as "Not Applicable", each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by the Offering Circular as completed by the Pricing Supplement in relation thereto to any retail investor in the European Economic Area. For the purposes of this provision:

(a) the expression "retail investor" means a person who is one (or more) of the following:

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

(ii) a customer within the meaning of Directive (EU) 2016/97 (as amended, the "Insurance Distribution Directive"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or

(iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (as amended, the "Prospectus Regulation"); and

(b) the expression an "offer" includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes.

If the Pricing Supplement in respect of any Notes specifies the "Prohibition of Sales to EEA Retail Investors" as "Not Applicable", in relation to each Member State of the European Economic Area (each, a "Member State"), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Offering Circular as completed by the final terms in relation thereto to the public in that Member State except that it may make an offer of such Notes to the public in that Member State:

(A) if the final terms in relation to the Notes specify that an offer of those Notes may be made other than pursuant to Article 1(4) of the Prospectus Regulation in that Member State (a "Non-exempt Offer"), following the date of publication of a prospectus in relation to such Notes which has been approved by the competent authority in that Member State or, where appropriate, approved in another Member State and notified to the competent authority in that Member State, provided that any such prospectus has subsequently been completed by final terms contemplating such Non-exempt Offer, in accordance with the Prospectus Regulation, in the period beginning and ending on the dates specified in such prospectus or the final terms, as applicable, and the Issuer has consented in writing to its use for the purpose of that Non-exempt Offer;

(B) at any time to any legal entity which is a qualified investor as defined in the Prospectus Regulation;

(C) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Regulation) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or

(D) at any time in any other circumstances falling within Article 1(4) of the Prospectus Regulation,

provided that no such offer of Notes referred to in paragraphs (B) to (D) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Regulation or supplement a prospectus pursuant to Article 23 of the Prospectus Regulation.

For the purposes of this provision:

- the expression "an offer of Notes to the public" in relation to any Notes in any Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes; and

- the expression "Prospectus Regulation" means Regulation (EU) 2017/1129, as amended.

United Kingdom

Prohibition of sales to UK Retail Investors

Unless the Pricing Supplement in respect of any Notes specifies "Prohibition of Sales to UK Retail Investors" as "Not Applicable", each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by this Offering Circular as completed by the Pricing Supplement in relation thereto to any retail investor in the United Kingdom. For the purposes of this provision:

(a) the expression "retail investor" means a person who is one (or more) of the following:

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

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

(iii) not a qualified investor as defined in Article 2 of the UK Prospectus Regulation (as defined below); and

(b) the expression an "offer" includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes.

If the Pricing Supplement in respect of any Notes specifies "Prohibition of Sales to UK Retail Investors" as "Not Applicable", each Dealer represents, warrants and agrees, that it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Offering Circular as completed by the Pricing Supplement in relation thereto to the public in the United Kingdom except that it may make an offer of such Notes to the public in the United Kingdom:

(a) if the Pricing Supplement in relation to the Notes specifies that an offer of those Notes may be made other than pursuant to section 86 of the FSMA (a "Public Offer"), following the date of publication of a prospectus in relation to such Notes which either (i) has been approved by the Financial Conduct Authority, or (ii) is to be treated as if it had been approved by the Financial Conduct Authority in accordance with the transitional provision in Regulation 74 of the Prospectus (Amendment etc.) (EU Exit) Regulations 2019, provided that any such prospectus has subsequently been completed by the Pricing Supplement contemplating such Public Offer, in the period beginning and ending on the dates specified in such prospectus or Pricing Supplement, as applicable, and the Issuer has consented in writing to its use for the purpose of that Public Offer;

(b) at any time to any legal entity which is a qualified investor as defined in Article 2 of the UK Prospectus Regulation;

(c) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in Article 2 of the UK Prospectus Regulation) in the United Kingdom, subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the relevant Issuer for any such offer; or

(d) at any time in any other circumstances falling within section 86 of the FSMA.

provided that no such offer of Notes referred to in (b) to (d) above shall require the relevant Issuer or any Dealer to publish a prospectus pursuant to section 85 of the FSMA or supplement a prospectus pursuant to Article 23 of the UK Prospectus Regulation.

For the purposes of this provision, the expression an "offer of Notes to the public" in relation to any Notes means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes and the expression "UK Prospectus Regulation" means Regulation (EU) 2017/1129 as it forms part of domestic law by virtue of the EUWA.

Other regulatory restrictions

Each Dealer has represented, warranted and agreed and each further Dealer appointed under the Programme will be required to represent, warrant and agree that:

(a) *No deposit-taking:* in relation to any Notes having a maturity of less than one year:

(i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business; and

(ii) it has not offered or sold and will not offer or sell any Notes other than to persons:

(A) whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses; or

(B) who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses,

where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer.

(b) *Financial promotion:* it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not, or, in the case of the Company would not, if it was not an authorised person, apply to the Issuer or the Company.

(c) *General compliance:* it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the UK.

Hong Kong

In relation to each Tranche of Notes to be issued by the Issuer under the Programme, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes, except for Notes which are a "structured product" as defined in the SFO, other than (i) to "professional investors" as defined in the SFO and any rules made under the SFO; or (ii) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the "C(WUMP)O") or which do not constitute an offer to the public within the meaning of the C(WUMP)O; and

(b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made under the SFO.

PRC

Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree, that neither it nor any of its affiliates has offered or sold or will offer or sell any of the Notes in the PRC (excluding Hong Kong, Macau and Taiwan) as part of the initial distribution of the Notes.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended; the "FIEA") and each Dealer has represented, warranted and agreed that it will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228) or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other relevant laws, regulations and ministerial guidelines of Japan.

Singapore

Each of the Dealers has acknowledged that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Dealer has represented, warranted and agreed that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the SFA pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

(i) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(ii) where no consideration is or will be given for the transfer;

(iii) where the transfer is by operation of law;

(iv) as specified in Section 276(7) of the SFA; or

(v) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018 of Singapore.

British Virgin Islands

Each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that with respect to offers and sales of any Notes, that it has not and will not make any invitation to the public or any member of the public in the British Virgin Islands to purchase the Notes and the Notes may not be offered or sold, directly or indirectly, in the British Virgin Islands, except as otherwise permitted by British Virgin Islands law.

General

These selling restrictions may be modified by the agreement of each of the Issuer, the Company and the Dealers following a change in a relevant law, regulation or directive. Any such modification will be set out in the relevant Pricing Supplement issued in respect of the issue of Notes to which it relates or in a supplement to this Offering Circular.

No action has been or will be taken in any jurisdiction that would permit a public offering of any of the Notes, or possession or distribution of the Offering Circular or any other offering material, in any country or jurisdiction where action for that purpose is required.

GENERAL INFORMATION

1. Listing

Application has been made to the Hong Kong Stock Exchange for the listing of the Programme during the 12-month period after the date of this Offering Circular on the Hong Kong Stock Exchange. Separate application may be made for the listing of the Notes on the Hong Kong Stock Exchange. The issue price of Notes listed on the Hong Kong Stock Exchange will be expressed as a percentage of their nominal amount. It is expected that dealings will, if permission is granted to deal in and for the listing of such Notes, commence on or about the next business day following the date of listing of the relevant Notes.

2. Authorisation

The update of the Programme and the issue of the Notes thereunder were authorised by a resolution of the board of directors of the Issuer passed on 28 September 2021 and by a resolution of the board of directors of the Company passed on 28 September 2021. Each of the Issuer and the Company has obtained or will obtain from time to time all necessary consents, approvals and authorisations in connection with the issue and performance of the Notes.

3. Legal and Arbitration Proceedings

None of the Issuer, the Company and the Guarantor is or has been involved in any governmental, legal or arbitration proceedings, (including any such proceedings which are pending or threatened, of which the Issuer or the Company is aware), which may have, or have had during the 12 months prior to the date of this Offering Circular, a significant effect on the financial position or profitability of the Issuer, the Company or the Guarantor.

4. Significant/Material Change

Since 31 December 2020, there has been no material adverse change in the financial position or prospects nor any significant change in the financial or trading position or prospects of the Issuer, the Company, the Guarantor, the Bank or the Group.

5. Auditor

Bank of China Limited's audited consolidated financial statements as at and for the years ended 31 December 2019 and 2020, which are included elsewhere in this Offering Circular, have been audited by Ernst & Young, Certified Public Accountants, as stated in its reports appearing herein. Bank of China Limited's unaudited condensed consolidated interim financial information as at and for the six months ended 30 June 2021, which are included elsewhere in this Offering Circular, have been reviewed by PricewaterhouseCoopers, Certified Public Accountants in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity", as stated in its report appearing herein.

6. Documents on Display

Copies of the following documents may be inspected during normal business hours on any weekday (Saturday's and public holidays excepted) at the registered office of the Company at 23/F, Bank of China Tower, 1 Garden Road, Hong Kong and the specified office of the Fiscal Agent at 20/F, CCB Tower 3, Connaught Road Central, Central, Hong Kong for so long as the Notes are capable of being issued under the Programme:

(i) the memorandum and articles of association of the Issuer and the Company;

(ii) the audited consolidated financial statements of Bank of China Limited for financial years ended 31 December 2019 and 2020, respectively;

(iii) the unaudited condensed consolidated interim financial statements of Bank of China Limited for the six months ended 30 June 2021;

(iv) copies of the latest annual report and audited annual consolidated financial statements, and any consolidated interim financial statements (whether audited or unaudited) published subsequently to such audited annual financial statements, of Bank of China Limited;

(v) each Pricing Supplement (save that a Pricing Supplement relating to a Note which is neither admitted to trading on a regulated market within the EEA or the UK nor offered in the EEA or the UK in circumstances where a prospectus is required to be published under the Prospectus Regulation will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuer and the Fiscal Agent as to its holding of Notes and identity);

(vi) a copy of this Offering Circular together with any Supplement to this Offering Circular;

(vii) a copy of the Deed of Guarantee;

(viii) a copy of the Deed of Covenant;

(ix) the Agency Agreement (which contains the forms of the Notes in global and definitive form);

(x) the Dealer Agreement; and

(xi) the Programme Manual.

7. Clearing of the Notes

The Notes may be accepted for clearance through Euroclear, Clearstream, Luxembourg and the CMU Service. The appropriate common code and the International Securities Identification Number in relation to the Notes of each Tranche will be specified in the relevant Pricing Supplement. The relevant Pricing Supplement shall specify any other clearing system as shall have accepted the relevant Notes for clearance together with any further appropriate information.

INDEX TO FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (UNAUDITED) OF THE BANK FOR THE SIX MONTHS ENDED 30 JUNE 2021

CONSOLIDATED FINANCIAL STATEMENTS OF THE BANK FOR THE YEAR ENDED 31 DECEMBER 2020

CONSOLIDATED FINANCIAL STATEMENTS OF THE BANK FOR THE YEAR ENDED 31 DECEMBER 2019

(1) The independent auditor's reports on the Group's consolidated financial statements for the years ended 31 December 2019 and 2020 and the independent auditor's review report on the Group's condensed consolidated interim financial information for the six months ended 30 June 2021 set out herein is reproduced from the Group's annual reports for the years ended 31 December 2019 and 2020 and the Group's interim report for the six months ended 30 June 2021 respectively. Page references referred to in the above named reports refer to pages set out in such annual reports and interim report.

Report on Review of Interim Financial Information

羅兵咸永道

To the Board of Directors of Bank of China Limited
(incorporated in the People's Republic of China with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 84 to 171, which comprises the condensed consolidated interim statement of financial position of Bank of China Limited (the "Bank") and its subsidiaries (together, the "Group") as at 30 June 2021 and the condensed consolidated interim income statement, the condensed consolidated interim statement of comprehensive income, the condensed consolidated interim statement of changes in equity and the condensed consolidated interim statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes (the "Interim Financial Information"). The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 *Interim Financial Reporting*. The directors of the Bank are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information of the Group is not prepared, in all material respects, in accordance with International Accounting Standard 34 *Interim Financial Reporting*.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 30 August 2021

Interim Financial Information

CONTENTS

Condensed Consolidated Interim Income Statement

For the six month period ended 30 June 2021 (Amounts in millions of Renminbi, unless otherwise stated)

	Note	Six month period ended 30 June	
		2021 Unaudited	2020 Unaudited
Interest income	III.1	**386,934**	384,448
Interest expense	III.1	**(178,161)**	(179,035)
Net interest income		**208,773**	205,413
Fee and commission income	III.2	**52,912**	47,986
Fee and commission expense	III.2	**(6,099)**	(6,162)
Net fee and commission income		**46,813**	41,824
Net trading gains	III.3	**9,754**	2,173
Net gains on transfers of financial assets	III.4	**1,852**	7,623
Other operating income	III.5	**35,663**	29,950
Operating income		**302,855**	286,983
Operating expenses	III.6	**(102,357)**	(90,946)
Impairment losses on assets	III.8	**(52,945)**	(66,484)
Operating profit		**147,553**	129,553
Share of results of associates and joint ventures		**749**	63
Profit before income tax		**148,302**	129,616
Income tax expense	III.9	**(29,755)**	(21,804)
Profit for the period		**118,547**	107,812
Attributable to:			
Equity holders of the Bank		**112,813**	100,917
Non-controlling interests		**5,734**	6,895
		118,547	107,812
Earnings per share (in RMB)	III.10		
— Basic		**0.36**	0.32
— Diluted		**0.36**	0.32

The accompanying notes form an integral part of this interim financial information.

Condensed Consolidated Interim Statement of Comprehensive Income

For the six month period ended 30 June 2021 (Amounts in millions of Renminbi, unless otherwise stated)

		Six month period ended 30 June	
	Note	2021 Unaudited	2020 Unaudited
Profit for the period		**118,547**	107,812
Other comprehensive income:	III.11		
Items that will not be reclassified to profit or loss			
— Actuarial losses on defined benefit plans		**(38)**	(79)
— Changes in fair value on equity instruments designated at fair value through other comprehensive income		**822**	(633)
— Other		**37**	39
Subtotal		**821**	(673)
Items that may be reclassified to profit or loss			
— Changes in fair value on debt instruments measured at fair value through other comprehensive income		**(794)**	5,589
— Allowance for credit losses on debt instruments measured at fair value through other comprehensive income		**132**	3,208
— Share of other comprehensive income of associates and joint ventures accounted for using the equity method		**49**	(47)
— Exchange differences from the translation of foreign operations		**(4,204)**	4,350
— Other		**92**	(350)
Subtotal		**(4,725)**	12,750
Other comprehensive income for the period, net of tax		**(3,904)**	12,077
Total comprehensive income for the period		**114,643**	119,889
Total comprehensive income attributable to:			
Equity holders of the Bank		**110,356**	111,185
Non-controlling interests		**4,287**	8,704
		114,643	119,889

The accompanying notes form an integral part of this interim financial information.

Condensed Consolidated Interim Statement of Financial Position

As at 30 June 2021 (Amounts in millions of Renminbi, unless otherwise stated)

	Note	As at 30 June 2021 Unaudited	As at 31 December 2020 Audited
ASSETS			
Cash and due from banks and other financial institutions	III.12	**724,911**	803,145
Balances with central banks	III.13	**2,254,697**	2,076,840
Placements with and loans to banks and other financial institutions	III.14	**1,371,661**	939,320
Government certificates of indebtedness for bank notes issued		**173,783**	168,608
Precious metals		**207,914**	223,313
Derivative financial assets	III.15	**116,240**	171,738
Loans and advances to customers, net	III.16	**15,047,714**	13,848,304
Financial investments	III.17	**5,821,520**	5,591,117
— financial assets at fair value through profit or loss		**510,583**	504,549
— financial assets at fair value through other comprehensive income		**2,174,982**	2,107,790
— financial assets at amortised cost		**3,135,955**	2,978,778
Investments in associates and joint ventures		**35,552**	33,508
Property and equipment	III.18	**245,998**	248,589
Investment properties	III.19	**20,885**	22,065
Deferred income tax assets	III.24	**48,650**	58,916
Other assets	III.20	**247,802**	217,196
Total assets		**26,317,327**	24,402,659

The accompanying notes form an integral part of this interim financial information.

	Note	As at 30 June 2021 Unaudited	As at 31 December 2020 Audited
LIABILITIES			
Due to banks and other financial institutions		**2,360,341**	1,917,003
Due to central banks		**895,824**	887,811
Bank notes in circulation		**173,755**	168,751
Placements from banks and other financial institutions		**500,009**	411,949
Financial liabilities held for trading	III.21	**12,706**	17,912
Derivative financial liabilities	III.15	**121,560**	212,052
Due to customers	III.22	**18,227,771**	16,879,171
Bonds issued	III.23	**1,301,561**	1,244,403
Other borrowings		**24,264**	26,034
Current tax liabilities		**28,322**	55,665
Retirement benefit obligations		**2,131**	2,199
Deferred income tax liabilities	III.24	**6,834**	6,499
Other liabilities	III.25	**431,901**	410,373
Total liabilities		**24,086,979**	22,239,822
EQUITY			
Capital and reserves attributable to equity holders of the Bank			
Share capital		**294,388**	294,388
Other equity instruments	III.26	**299,510**	277,490
Capital reserve		**136,178**	135,973
Treasury shares		**(51)**	(8)
Other comprehensive income	III.11	**1,810**	4,309
Statutory reserves		**193,667**	193,438
General and regulatory reserves		**269,280**	267,981
Undistributed profits		**910,565**	864,848
		2,105,347	2,038,419
Non-controlling interests		**125,001**	124,418
Total equity		**2,230,348**	2,162,837
Total equity and liabilities		**26,317,327**	24,402,659

Approved and authorised for issue by the Board of Directors on 30 August 2021.

The accompanying notes form an integral part of this interim financial information.

LIU Liange
Director

LIU Jin
Director

Condensed Consolidated Interim Statement of Changes in Equity

For the six month period ended 30 June 2021 (Amounts in millions of Renminbi, unless otherwise stated)

		Attributable to equity holders of the Bank (Unaudited)									
	Note	Share capital	Other equity instruments	Capital reserve	Other comprehensive income	Statutory reserves	General and regulatory reserves	Undistributed profits	Treasury shares	Non-controlling interests	Total
As at 1 January 2021		294,388	277,490	135,973	4,309	193,438	267,981	864,848	(8)	124,418	2,162,837
Total comprehensive income	III.11	–	–	–	(2,457)	–	–	112,813	–	4,287	114,643
Appropriation to statutory reserves		–	–	–	–	229	–	(229)	–	–	–
Appropriation to general and regulatory reserves		–	–	–	–	–	1,299	(1,299)	–	–	–
Dividends	III.27	–	–	–	–	–	–	(65,610)	–	(3,743)	(69,353)
Net change in treasury shares		–	–	–	–	–	–	–	(43)	–	(43)
Capital contribution by non-controlling shareholders		–	–	–	–	–	–	–	–	39	39
Capital contribution and reduction by other equity instruments holders	III.26	–	22,020	(31)	–	–	–	–	–	–	21,989
Other comprehensive income transferred to retained earnings		–	–	–	(42)	–	–	42	–	–	–
Other		–	–	236	–	–	–	–	–	–	236
As at 30 June 2021		294,388	299,510	136,178	1,810	193,667	269,280	910,565	(51)	125,001	2,230,348

The accompanying notes form an integral part of this interim financial information.

	Note	Attributable to equity holders of the Bank								Non-controlling interests	Total
		Share capital	Other equity instruments	Capital reserve	Other comprehensive income	Statutory reserves	General and regulatory reserves	Undistributed profits	Treasury shares		
As at 1 January 2020		294,388	199,893	136,012	19,613	174,762	250,100	776,940	(7)	124,995	1,976,696
Total comprehensive income	III.11	–	–	–	10,268	–	–	100,917	–	8,704	119,889
Appropriation to statutory reserves		–	–	–	–	390	–	(390)	–	–	–
Appropriation to general and regulatory reserves		–	–	–	–	–	(2,986)	2,986	–	–	–
Dividends		–	–	–	–	–	–	(64,027)	–	(4,430)	(68,457)
Net change in treasury shares		–	–	–	–	–	–	–	(13)	–	(13)
Capital contribution by non-controlling shareholders		–	–	–	–	–	–	–	–	930	930
Capital contribution by other equity instruments holders		–	59,571	–	–	–	–	–	–	–	59,571
Other comprehensive income transferred to retained earnings		–	–	–	116	–	–	(116)	–	–	–
Other		–	–	25	–	–	–	–	–	(28)	(3)
As at 30 June 2020 (Unaudited)		294,388	259,464	136,037	29,997	175,152	247,114	816,310	(20)	130,171	2,088,613
Total comprehensive income		–	–	–	(25,714)	–	–	91,953	–	(3,894)	62,345
Appropriation to statutory reserves		–	–	–	–	18,286	–	(18,286)	–	–	–
Appropriation to general and regulatory reserves		–	–	–	–	–	20,867	(20,867)	–	–	–
Dividends		–	–	–	–	–	–	(4,230)	–	(2,552)	(6,782)
Net change in treasury shares		–	–	–	–	–	–	–	12	–	12
Capital contribution by non-controlling shareholders		–	–	–	–	–	–	–	–	428	428
Capital contribution and reduction by other equity instruments holders		–	18,026	(37)	–	–	–	–	–	–	17,989
Other comprehensive income transferred to retained earnings		–	–	–	26	–	–	(26)	–	–	–
Other		–	–	(27)	–	–	–	(6)	–	265	232
As at 31 December 2020 (Audited)		294,388	277,490	135,973	4,309	193,438	267,981	864,848	(8)	124,418	2,162,837

The accompanying notes form an integral part of this interim financial information.

Condensed Consolidated Interim Statement of Cash Flows

For the six month period ended 30 June 2021 (Amounts in millions of Renminbi, unless otherwise stated)

		Six month period ended 30 June	
	Note	2021 Unaudited	2020 Unaudited
Cash flows from operating activities			
Profit before income tax		**148,302**	129,616
Adjustments:			
Impairment losses on assets		**52,945**	66,484
Depreciation of property and equipment and right-of-use assets		**11,263**	11,158
Amortisation of intangible assets and other assets		**3,041**	2,440
Net gains on disposals of property and equipment, intangible assets and other long-term assets		**(252)**	(957)
Net gains on disposals of investments in subsidiaries, associates and joint ventures		**(839)**	(114)
Share of results of associates and joint ventures		**(749)**	(63)
Interest income arising from financial investments		**(75,417)**	(76,475)
Dividends arising from investment securities		**(189)**	(126)
Net gains on financial investments		**(888)**	(6,767)
Interest expense arising from bonds issued		**20,321**	17,119
Accreted interest on impaired loans		**(360)**	(642)
Interest expense arising from lease liabilities		**379**	395
Net changes in operating assets and liabilities:			
Net (increase)/decrease in balances with central banks		**(165,697)**	18,444
Net decrease/(increase) in due from and placements with and loans to banks and other financial institutions		**94,265**	(186,545)
Net decrease in precious metals		**15,407**	34,717
Net increase in loans and advances to customers		**(1,243,419)**	(983,153)
Net decrease/(increase) in other assets		**57,185**	(64,450)
Net increase/(decrease) in due to banks and other financial institutions		**441,343**	(53,899)
Net increase in due to central banks		**5,322**	42,047
Net increase/(decrease) in placements from banks and other financial institutions		**88,313**	(102,083)
Net increase in due to customers		**1,329,144**	1,270,004
Net (decrease)/increase in other borrowings		**(1,770)**	2,311
Net (decrease)/increase in other liabilities		**(42,091)**	70,022
Cash inflow from operating activities		**735,559**	189,483
Income tax paid		**(46,983)**	(52,126)
Net cash inflow from operating activities		**688,576**	137,357

The accompanying notes form an integral part of this interim financial information.

		Six month period ended 30 June	
	Note	2021 Unaudited	2020 Unaudited
Cash flows from investing activities			
Proceeds from disposals of property and equipment, intangible assets and other long-term assets		**3,198**	2,224
Proceeds from disposals of investments in subsidiaries, associates and joint ventures		**1,410**	544
Dividends received		**287**	429
Interest income received from financial investments		**74,995**	77,643
Proceeds from disposals/maturities of financial investments		**1,414,209**	1,775,154
Increase in investments in subsidiaries, associates and joint ventures		**(1,609)**	(479)
Purchase of property and equipment, intangible assets and other long-term assets		**(11,541)**	(18,378)
Purchase of financial investments		**(1,658,334)**	(1,628,949)
Net cash (outflow)/inflow from investing activities		**(177,385)**	208,188
Cash flows from financing activities			
Proceeds from issuance of bonds		**559,997**	345,628
Proceeds from issuance of other equity instruments		**49,989**	59,571
Proceeds from capital contribution by non-controlling shareholders		**40**	930
Repayments of debts issued		**(513,344)**	(368,592)
Cash payments for interest on bonds issued		**(5,172)**	(7,259)
Repayments of other equity instruments issued		**(28,000)**	–
Dividend payments to ordinary shareholders		**(57,911)**	–
Dividend and interest payments to other equity instrument holders		**(8,755)**	(6,625)
Dividend payments to non-controlling shareholders		**(3,743)**	(1,192)
Other net cash flows from financing activities		**(1,707)**	(3,362)
Net cash (outflow)/inflow from financing activities		**(8,606)**	19,099
Effect of exchange rate changes on cash and cash equivalents		**(17,896)**	9,233
Net increase in cash and cash equivalents		**484,689**	373,877
Cash and cash equivalents at beginning of the period		**1,494,868**	1,345,892
Cash and cash equivalents at end of the period	III.29	**1,979,557**	1,719,769

The accompanying notes form an integral part of this interim financial information.

(Amounts in millions of Renminbi, unless otherwise stated)

I BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial information for the six month period ended 30 June 2021 has been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting* and should be read in conjunction with the Group's consolidated financial statements for the year ended 31 December 2020.

Except as described below, the principal accounting policies adopted in the preparation of the unaudited condensed consolidated interim financial information are consistent with those used in the Group's consolidated financial statements for the year ended 31 December 2020.

1 Standards and amendments effective in 2021 relevant to and adopted by the Group

On 1 January 2021, the Group has adopted the following International Financial Reporting Standards ("IFRSs") and amendments issued by the International Accounting Standards Board ("IASB"), which were mandatorily effective for the current interim period.

IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Amendments	*Interest Rate Benchmark Reform ("IBOR Reform") — Phase 2*

The IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 — Phase 2 amendments address issues that arise upon replacing the existing interest rate benchmark with the alternative interest rates and introduces additional disclosure requirements. The Phase 2 amendments provide two key reliefs:

(1) For instruments measured using amortised cost measurement, the amendments provide a practical expedient to account for these changes in the basis for determining contractual cash flows as a result of IBOR Reform. Under the practical expedient, entities will account for these changes by updating the effective interest rate using the guidance in paragraph B5.4.5 of IFRS 9 without the recognition of an immediate gain or loss. This practical expedient applies only to such a change and only to the extent that it is necessary as a direct consequence of IBOR Reform, and the new basis for determining the contractual of cash flows is economically equivalent to the previous basis.

(2) The amendments also provide additional temporary reliefs from applying specific IAS 39 and IFRS 9 hedge accounting requirements to hedging relationships directly affected by IBOR Reform.

I BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (Continued)

2 Standards and amendments that were early adopted by the Group in 2021

IFRS 16 Amendment	*COVID-19-Related Rent Concessions*

In May 2020, the IASB published an amendment to IFRS 16 that provided an optional practical expedient for lessees to assess whether a rent concession due on or before 30 June 2021 related to COVID-19 is a lease modification. In March 2021, the IASB published an additional amendment to extend the date of the rent concession from 30 June 2021 to 30 June 2022. The amendment is effective for annual reporting periods beginning on or after 1 April 2021 with earlier application permitted. The Group has early adopted this amendment for the current interim period.

The adoption of the above standards and amendments does not have any significant impact on the operating results, financial position and comprehensive income of the Group for the six month period ended 30 June 2021.

(Amounts in millions of Renminbi, unless otherwise stated)

I BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (Continued)

3 Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2021

		Effective for annual periods beginning on or after
IFRS 3 Amendments	*Business Combination*	1 January 2022
IAS 16 Amendments	*Property, Plant and Equipment: Proceeds before Intended Use*	1 January 2022
IAS 37 Amendments	*Onerous Contracts — Cost of Fulfilling a Contract*	1 January 2022
Annual Improvements to IFRSs 2018–2020 Cycle (issued in May 2020)	*Minor Amendments to IFRS 1, IFRS 9, IAS 41 and IFRS 16*	1 January 2022
IAS 1 Amendments	*Classification of Liabilities as Current or Non-current*	1 January 2023
IFRS 17 and Amendments	*Insurance Contracts*	1 January 2023
IAS 1 and IFRS Practice Statement 2 Amendments	*Disclosure of Accounting Policies*	1 January 2023
IAS 8 Amendments	*Definition of Accounting Estimates*	1 January 2023
IAS 12 Amendments	*Deferred Tax related to Assets and Liabilities arising from a Single Transaction*	1 January 2023
IFRS 10 and IAS 28 Amendments	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	Effective date has been deferred indefinitely

The Group is considering the impact of IFRS 17 on the consolidated financial statements. Except for IFRS 17, the adoption of the above standards and amendments will have no material impact on the Group's consolidated financial statements.

II CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The nature and assumptions related to the Group's accounting estimates are consistent with those adopted in the Group's consolidated financial statements for the year ended 31 December 2020.

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1 Net interest income

	Six month period ended 30 June	
	2021	**2020**
Interest income		
Loans and advances to customers		
— Corporate loans and advances	**150,661**	154,242
— Personal loans	**128,133**	118,353
— Discounted bills	**4,064**	4,803
Financial investments		
— Financial assets at fair value through other comprehensive income	**26,357**	29,463
— Financial assets at amortised cost	**49,060**	47,012
Due from and placements with and loans to banks and other financial institutions and central banks	**28,659**	30,575
Subtotal	**386,934**	384,448
Interest expense		
Due to customers	**(130,550)**	(132,966)
Due to and placements from banks and other financial institutions	**(27,064)**	(28,621)
Bonds issued and other	**(20,547)**	(17,448)
Subtotal	**(178,161)**	(179,035)
Net interest income	**208,773**	205,413

2 Net fee and commission income

	Six month period ended 30 June	
	2021	**2020**
Agency commissions	**16,971**	13,440
Settlement and clearing fees	**8,377**	7,925
Credit commitment fees	**6,813**	6,617
Bank card fees	**6,756**	6,985
Consultancy and advisory fees	**3,827**	3,269
Custodian and other fiduciary service fees	**3,328**	2,254
Spread income from foreign exchange business	**2,705**	3,134
Other	**4,135**	4,362
Fee and commission income	**52,912**	47,986
Fee and commission expense	**(6,099)**	(6,162)
Net fee and commission income	**46,813**	41,824

(Amounts in millions of Renminbi, unless otherwise stated)

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

3 Net trading gains

	Six month period ended 30 June	
	2021	**2020**
Net (losses)/gains from foreign exchange and foreign exchange products	**(593)**	4,630
Net gains from interest rate products	**7,806**	3,376
Net gains from fund investments and equity products	**1,946**	1,218
Net gains/(losses) from commodity products	**595**	(7,051)
Total(1)	**9,754**	2,173

(1) For the six month period ended 30 June 2021, included in "Net trading gains" above were losses of RMB311 million in relation to financial assets and financial liabilities designated as at fair value through profit or loss (six month period ended 30 June 2020: gains of RMB1,171 million).

4 Net gains on transfers of financial assets

	Six month period ended 30 June	
	2021	**2020**
Net gains on derecognition of financial assets at fair value through other comprehensive income	**1,071**	6,095
Net gains on derecognition of financial assets at amortised cost(1)	**781**	1,528
Total	**1,852**	7,623

(1) All the net gains on the derecognition of financial assets at amortised cost resulted from disposals during the six month periods ended 30 June 2021 and 30 June 2020.

5 Other operating income

	Six month period ended 30 June	
	2021	**2020**
Insurance premiums		
— Life insurance contracts	**14,484**	10,839
— Non-life insurance contracts	**2,616**	3,000
Aircraft leasing income	**5,996**	6,251
Revenue from sale of precious metal products	**5,956**	4,457
Dividend income (1)	**3,423**	2,792
Changes in fair value of investment properties (Note III.19)	**(116)**	(470)
Gains on disposals of property and equipment, intangible assets and other assets	**321**	988
Gains on disposals of subsidiaries, associates and joint ventures	**839**	114
Other (2)	**2,144**	1,979
Total	**35,663**	29,950

(1) For the six month period ended 30 June 2021, included in the "Dividend income" was related to equity instruments classified as financial assets at fair value through other comprehensive income of RMB189 million (six month period ended 30 June 2020: RMB126 million).

(2) For the six month period ended 30 June 2021, included in the "Other operating income" was government subsidy income related to operating activities of RMB158 million (six month period ended 30 June 2020: RMB141 million).

6 Operating expenses

	Six month period ended 30 June	
	2021	**2020**
Staff costs (Note III.7)	**44,865**	40,959
General operating and administrative expenses (1)	**16,175**	14,620
Insurance benefits and claims		
— Life insurance contracts	**14,983**	10,959
— Non-life insurance contracts	**1,746**	1,956
Depreciation and amortisation	**11,868**	11,297
Cost of sales of precious metal products	**5,685**	4,195
Taxes and surcharges	**2,991**	2,880
Other	**4,044**	4,080
Total (2)	**102,357**	90,946

(1) For the six month period ended 30 June 2021, included in the "General operating and administrative expenses" were lease expenses related to short-term operating leases and leases of low-value assets of RMB634 million (six month period ended 30 June 2020: RMB560 million).

(2) For the six month period ended 30 June 2021, included in the "Operating expenses" were premises and equipment-related expenses (mainly comprised property management and building maintenance expenses and taxes) of RMB5,218 million (six month period ended 30 June 2020: RMB5,038 million).

(Amounts in millions of Renminbi, unless otherwise stated)

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

7 Staff costs

	Six month period ended 30 June	
	2021	**2020**
Salary, bonus and subsidy	**31,344**	30,547
Staff welfare	**1,325**	1,094
Retirement benefits	**26**	27
Social insurance		
— Medical	**1,722**	1,202
— Pension	**3,070**	1,855
— Annuity	**1,730**	1,069
— Unemployment	**106**	60
— Injury at work	**40**	24
— Maternity insurance	**69**	65
Housing funds	**2,410**	2,310
Labour union fee and staff education fee	**1,071**	999
Reimbursement for cancellation of labour contract	**13**	15
Other	**1,939**	1,692
Total	**44,865**	40,959

8 Impairment losses on assets

	Six month period ended 30 June	
	2021	**2020**
Loans and advances		
— Loans and advances at amortised cost	**47,712**	60,726
— Loans and advances at fair value through other comprehensive income	**38**	2
Subtotal	**47,750**	60,728
Financial investments		
— Financial assets at amortised cost	**97**	1,685
— Financial assets at fair value through other comprehensive income	**148**	4,255
Subtotal	**245**	5,940
Credit commitments	**(1,675)**	(1,700)
Other	**5,967**	1,438
Subtotal of impairment losses on credit	**52,287**	66,406
Other impairment losses on assets	**658**	78
Total	**52,945**	66,484

9 Income tax expense

	Six month period ended 30 June	
	2021	**2020**
Current income tax		
— Chinese mainland income tax	**14,761**	23,138
— Hong Kong (China) profits tax	**2,232**	2,889
— Macao (China), Taiwan (China) and other countries and regions taxation	**1,879**	2,362
Adjustments in respect of current income tax of prior years	**288**	1,696
Subtotal	**19,160**	30,085
Deferred income tax (Note III.24.3)	**10,595**	(8,281)
Total	**29,755**	21,804

Provision for Chinese mainland income tax includes income tax based on the statutory tax rate of 25% of the taxable income of the Bank and each of its subsidiaries established in the Chinese mainland, and supplementary PRC tax on overseas operations as determined in accordance with the relevant PRC income tax rules and regulations.

Taxation on profits of Hong Kong (China), Macao (China), Taiwan (China) and other countries and regions has been calculated on the estimated assessable profits in accordance with local tax regulations at the rates of taxation prevailing in the countries or regions in which the Group operates.

The tax rate on the Group's profit before tax differs from the theoretical amount that would arise using the basic Chinese mainland tax rate of the Bank as follows:

	Six month period ended 30 June	
	2021	**2020**
Profit before income tax	**148,302**	129,616
Tax calculated at the applicable statutory tax rate	**37,076**	32,404
Effect of different tax rates for Hong Kong (China), Macao (China), Taiwan (China) and other countries and regions	**(2,417)**	(2,294)
Supplementary PRC tax on overseas income	**2,014**	1,253
Income not subject to tax (1)	**(14,792)**	(14,296)
Items not deductible for tax purposes (2)	**8,450**	6,262
Other	**(576)**	(1,525)
Income tax expense	**29,755**	21,804

(1) Income not subject to tax mainly comprises interest income from PRC treasury bonds and Chinese local government bonds, and the tax-free income recognised by the overseas entities in accordance with the relevant local tax law.

(2) Non-deductible items primarily include non-deductible losses resulting from write-off of certain non-performing loans, and marketing and entertainment expenses in excess of the relevant deductible threshold under the relevant PRC tax regulations.

(Amounts in millions of Renminbi, unless otherwise stated)

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

10 Earnings per share (basic and diluted)

Basic earnings per share was computed by dividing the profit attributable to the ordinary shareholders of the Bank by the weighted average number of ordinary shares in issue during the period.

Diluted earnings per share was computed by dividing the adjusted profit attributable to the ordinary shareholders of the Bank based on assuming conversion of all potentially dilutive shares for the six month period by the adjusted weighted average number of ordinary shares in issue. There was no difference between basic and diluted earnings per share as there were no potentially dilutive shares outstanding for the six month periods ended 30 June 2021 and 30 June 2020.

	Six month period ended 30 June	
	2021	**2020**
Profit attributable to equity holders of the Bank	**112,813**	100,917
Less: dividends/interest on preference shares/ perpetual bonds declared	**(7,616)**	(7,800)
Profit attributable to ordinary shareholders of the Bank	**105,197**	93,117
Weighted average number of ordinary shares in issue (in million shares)	**294,380**	294,381
Basic and diluted earnings per share (in RMB)	**0.36**	0.32

Weighted average number of ordinary shares in issue (in million shares)

	Six month period ended 30 June	
	2021	**2020**
Issued ordinary shares as at 1 January	**294,388**	294,388
Less: weighted average number of treasury shares	**(8)**	(7)
Weighted average number of ordinary shares in issue	**294,380**	294,381

11 Other comprehensive income

	Six month period ended 30 June	
	2021	**2020**
Items that will not be reclassified to profit or loss		
Actuarial losses on defined benefit plans	**(38)**	(79)
Changes in fair value on equity instruments designated at fair value through other comprehensive income	**1,125**	(571)
Less: related income tax impact	**(303)**	(62)
Other	**37**	39
Subtotal	**821**	(673)
Items that may be reclassified to profit or loss		
Changes in fair value on debt instruments measured at fair value through other comprehensive income	**(280)**	13,109
Less: related income tax impact	**157**	(2,899)
Amount transferred to the income statement	**(828)**	(5,855)
Less: related income tax impact	**157**	1,234
	(794)	5,589
Allowance for credit losses on debt instruments measured at fair value through other comprehensive income	**178**	4,261
Less: related income tax impact	**(46)**	(1,053)
	132	3,208
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	**65**	(63)
Less: related income tax impact	**(16)**	16
	49	(47)
Exchange differences from the translation of foreign operations	**(4,204)**	4,350
Other	**92**	(350)
Subtotal	**(4,725)**	12,750
Total	**(3,904)**	12,077

(Amounts in millions of Renminbi, unless otherwise stated)

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

11 Other comprehensive income (Continued)

Other comprehensive income attributable to equity holders of the Bank in the consolidated interim statement of financial position:

	(Losses)/gains on financial assets at fair value through other comprehensive income	Exchange differences from the translation of foreign operations	Other	Total
As at 1 January 2020	22,534	(6,172)	3,251	19,613
Changes for the previous year	(344)	(14,285)	(675)	(15,304)
As at 1 January 2021	**22,190**	**(20,457)**	**2,576**	**4,309**
Changes for the period	**530**	**(3,055)**	**26**	**(2,499)**
As at 30 June 2021	**22,720**	**(23,512)**	**2,602**	**1,810**

12 Cash and due from banks and other financial institutions

	As at 30 June 2021	As at 31 December 2020
Cash	**59,731**	78,825
Due from banks in Chinese mainland	**532,718**	602,340
Due from other financial institutions in Chinese mainland	**7,517**	7,515
Due from banks in Hong Kong (China), Macao (China), Taiwan (China) and other countries and regions	**122,473**	110,662
Due from other financial institutions in Hong Kong (China), Macao (China), Taiwan (China) and other countries and regions	**467**	559
Subtotal (1)	**663,175**	721,076
Accrued interest	**3,740**	4,327
Less: allowance for impairment losses (1)	**(1,735)**	(1,083)
Subtotal due from banks and other financial institutions	**665,180**	724,320
Total	**724,911**	803,145

(1) As at 30 June 2021 and 31 December 2020, the Group included the predominant majority of due from banks and other financial institutions in Stage 1, and measured the impairment losses based on expected credit losses in the next 12 months ("12-month ECLs").

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

13 Balances with central banks

	As at 30 June 2021	As at 31 December 2020
Mandatory reserves (1)	**1,540,335**	1,442,384
Surplus reserves and others (2)	**717,065**	633,761
Subtotal	**2,257,400**	2,076,145
Accrued interest	**620**	695
Less: allowance for impairment losses	**(3,323)**	–
Total	**2,254,697**	2,076,840

(1) The Group places mandatory reserve funds with the People's Bank of China (the "PBOC") and the central banks of Hong Kong (China), Macao (China), Taiwan (China) and other countries and regions where it has operations. As at 30 June 2021, mandatory reserve funds placed with the PBOC were calculated at 11.0% (31 December 2020: 11.0%) and 7.0% (31 December 2020: 5.0%) of qualified RMB deposits and foreign currency deposits from customers in Chinese mainland of the Bank, respectively. Mandatory reserve funds placed with the central bank of domestic subsidiaries of the Group are determined by the PBOC. The amounts of mandatory reserve funds placed with the central banks of other jurisdictions are determined by local regulators.

(2) This represents funds for clearing purposes and balances other than mandatory reserves placed with the PBOC, and the central banks of Hong Kong (China), Macao (China), Taiwan (China) and other countries and regions.

(Amounts in millions of Renminbi, unless otherwise stated)

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

14 Placements with and loans to banks and other financial institutions

	As at 30 June 2021	As at 31 December 2020
Placements with and loans to:		
Banks in Chinese mainland	**87,486**	91,709
Other financial institutions in Chinese mainland	**623,071**	529,152
Banks in Hong Kong (China), Macao (China), Taiwan (China) and other countries and regions	**638,887**	294,358
Other financial institutions in Hong Kong (China), Macao (China), Taiwan (China) and other countries and regions	**22,444**	24,157
Subtotal (1) (2)	**1,371,888**	939,376
Accrued interest	**3,270**	2,429
Less: allowance for impairment losses (2)	**(3,497)**	(2,485)
Total	**1,371,661**	939,320

(1) "Placements with and loans to banks and other financial institutions" include balances arising from reverse repo agreements and collateralised financing agreements. They are presented by collateral type as follows:

	As at 30 June 2021	As at 31 December 2020
Debt securities		
— Governments	**436,583**	182,724
— Policy banks	**57,818**	40,968
— Financial institutions	**62,987**	6,109
— Corporates	**4,456**	256
Subtotal	**561,844**	230,057
Less: allowance for impairment losses	**(20)**	–
Total	**561,824**	230,057

(2) As at 30 June 2021 and 31 December 2020, the Group included the predominant majority of its placements with and loans to banks and other financial institutions in Stage 1, and measured the impairment losses based on 12-month ECLs.

15 Derivative financial instruments

The Group enters into foreign currency exchange rate, interest rate, equity, credit or precious metals and other commodity-related derivative financial instruments for trading, hedging, asset and liability management and customer initiated transactions.

The contractual/notional amounts and fair values of derivative instruments held by the Group are set out in the following tables. The contractual/notional amounts of derivative financial instruments provide a basis for comparison with the fair values of instruments recognised in the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or market risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates, foreign currency exchange rates, credit spreads, or equity/commodity prices relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

	As at 30 June 2021			As at 31 December 2020		
	Contractual/ notional amount	Fair value		Contractual/ notional amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
Exchange rate derivatives						
Currency forwards and swaps, and cross-currency interest rate swaps	**5,874,616**	**73,876**	**(74,103)**	6,304,310	118,600	(151,412)
Currency options	**456,902**	**4,996**	**(4,209)**	419,338	6,921	(3,789)
Currency futures	**1,055**	**4**	**(2)**	1,746	7	(20)
Subtotal	**6,332,573**	**78,876**	**(78,314)**	6,725,394	125,528	(155,221)
Interest rate derivatives						
Interest rate swaps	**3,838,598**	**25,332**	**(31,239)**	3,817,876	32,789	(42,520)
Interest rate options	**30,470**	**97**	**(96)**	63,772	16	(11)
Interest rate futures	**1,484**	**2**	**(2)**	543	–	(1)
Subtotal	**3,870,552**	**25,431**	**(31,337)**	3,882,191	32,805	(42,532)
Equity derivatives	**11,763**	**157**	**(155)**	12,927	376	(413)
Commodity derivatives and other	**371,169**	**11,776**	**(11,754)**	392,823	13,029	(13,886)
Total [(1)]	**10,586,057**	**116,240**	**(121,560)**	11,013,335	171,738	(212,052)

(1) Derivative financial instruments include those designated as hedging instruments by the Group.

(Amounts in millions of Renminbi, unless otherwise stated)

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

16 Loans and advances to customers

16.1 Analysis of loans and advances to customers by measurement category

	As at 30 June 2021	As at 31 December 2020
Measured at amortised cost		
— Corporate loans and advances	**9,153,631**	8,235,520
— Personal loans	**5,918,549**	5,583,295
— Discounted bills	**2,365**	1,912
Measured at fair value through other comprehensive income (1)		
— Discounted bills	**302,778**	358,997
Subtotal	**15,377,323**	14,179,724
Measured at fair value through profit or loss (2)		
— Corporate loans and advances	**4,165**	3,661
Total	**15,381,488**	14,183,385
Accrued interest	**34,912**	33,092
Total loans and advances	**15,416,400**	14,216,477
Less: allowance for loans at amortised cost	**(368,686)**	(368,173)
Loans and advances to customers, net	**15,047,714**	13,848,304

(1) As at 30 June 2021 and 31 December 2020, loans at fair value through other comprehensive income of the Group were discounted bills. Related allowance for impairment losses amounted to RMB482 million and RMB446 million, respectively, and were credited to other comprehensive income.

(2) There was no significant change for the six month period ended 30 June 2021 and the year ended 31 December 2020, or cumulatively, in the fair value of the loans that was attributable to changes in the credit risk of the loans.

16.2 Analysis of loans and advances to customers (excluding accrued interest) by geographical area, customer type, industry, collateral type and analysis of impaired and overdue loans and advances to customers are presented in Note IV.1.1.

16 Loans and advances to customers (Continued)

16.3 Reconciliation of allowance for impairment losses on loans and advances to customers

(1) Allowance for loans at amortised cost:

	Six month period ended 30 June 2021			
	12-month ECLs	Lifetime ECLs		
	Stage 1	Stage 2	Stage 3	Total
As at 1 January	**134,566**	**70,712**	**162,895**	**368,173**
Transfers to Stage 1	**5,899**	**(4,945)**	**(954)**	**–**
Transfers to Stage 2	**(1,446)**	**2,651**	**(1,205)**	**–**
Transfers to Stage 3	**(106)**	**(10,230)**	**10,336**	**–**
Impairment (reversal)/losses due to stage transfers	**(4,922)**	**8,909**	**19,631**	**23,618**
Charge for the period (i)	**40,182**	**12,267**	**34,864**	**87,313**
Reversal for the period (ii)	**(36,243)**	**(13,350)**	**(13,626)**	**(63,219)**
Write-off and transfer out	**(130)**	**–**	**(52,548)**	**(52,678)**
Recovery of loans and advances written off	**–**	**–**	**6,580**	**6,580**
Exchange differences and other	**(117)**	**(627)**	**(357)**	**(1,101)**
As at 30 June	**137,683**	**65,387**	**165,616**	**368,686**

	Year ended 31 December 2020			
	12-month ECLs	Lifetime ECLs		
	Stage 1	Stage 2	Stage 3	Total
As at 1 January	109,765	79,051	136,544	325,360
Transfers to Stage 1	3,769	(3,232)	(537)	–
Transfers to Stage 2	(1,274)	13,913	(12,639)	–
Transfers to Stage 3	(407)	(30,546)	30,953	–
Impairment (reversal)/losses due to stage transfers	(3,507)	9,357	35,203	41,053
Charge for the year (i)	70,933	24,190	42,114	137,237
Reversal for the year (ii)	(43,164)	(21,257)	(10,126)	(74,547)
Write-off and transfer out	(66)	–	(64,255)	(64,321)
Recovery of loans and advances written off	–	–	8,405	8,405
Exchange differences and other	(1,483)	(764)	(2,767)	(5,014)
As at 31 December	134,566	70,712	162,895	368,173

(i) Charge for the period/year comprises impairment losses attributable to new loans, remaining loans without stage transfers, and changes to model/risk parameters, etc.

(ii) Reversal for the period/year comprises impairment losses attributable to loan repaid, remaining loans without stage transfers, and changes to model/risk parameters, etc.

(Amounts in millions of Renminbi, unless otherwise stated)

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

16 Loans and advances to customers (Continued)

16.3 Reconciliation of allowance for impairment losses on loans and advances to customers (Continued)

(2) Allowance for loans at fair value through other comprehensive income:

	Six month period ended 30 June 2021			
	12-month ECLs	Lifetime ECLs		
	Stage 1	Stage 2	Stage 3	Total
As at 1 January	**441**	**5**	**–**	**446**
Charge for the period	**366**	**21**	**–**	**387**
Reversal for the period	**(326)**	**(23)**	**–**	**(349)**
Exchange differences and other	**(2)**	**–**	**–**	**(2)**
As at 30 June	**479**	**3**	**–**	**482**

	Year ended 31 December 2020			
	12-month ECLs	Lifetime ECLs		
	Stage 1	Stage 2	Stage 3	Total
As at 1 January	547	16	–	563
Charge for the year	563	5	–	568
Reversal for the year	(665)	(16)	–	(681)
Exchange differences and other	(4)	–	–	(4)
As at 31 December	441	5	–	446

17 Financial investments

	As at 30 June 2021	As at 31 December 2020
Financial assets at fair value through profit or loss		
Financial assets held for trading and other financial assets at fair value through profit or loss		
Debt securities		
Issuers in Chinese mainland		
— Government	**15,889**	20,176
— Public sectors and quasi-governments	**191**	302
— Policy banks	**23,802**	31,755
— Financial institutions	**189,908**	188,092
— Corporate	**44,380**	42,122
Issuers in Hong Kong (China), Macao (China), Taiwan (China) and other countries and regions		
— Governments	**13,544**	18,919
— Public sectors and quasi-governments	**291**	45
— Financial institutions	**16,385**	10,106
— Corporate	**10,516**	9,603
	314,906	321,120
Equity instruments	**88,040**	88,025
Fund investments and other	**85,237**	69,183
Total financial assets held for trading and other financial assets at fair value through profit or loss	**488,183**	478,328
Financial assets designated as at fair value through profit or loss		
Debt securities [(1)]		
Issuers in Chinese mainland		
— Government	**3,616**	3,073
— Policy banks	**502**	509
— Financial institutions	**7,202**	6,640
— Corporate	**300**	1,846
Issuers in Hong Kong (China), Macao (China), Taiwan (China) and other countries and regions		
— Governments	**609**	1,295
— Public sectors and quasi-governments	**1,215**	721
— Financial institutions	**3,036**	5,525
— Corporate	**5,211**	6,514
	21,691	26,123
Other	**709**	98
Total financial assets designated as at fair value through profit or loss	**22,400**	26,221
Total financial assets at fair value through profit or loss	**510,583**	504,549

(Amounts in millions of Renminbi, unless otherwise stated)

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

17 Financial investments (Continued)

	As at 30 June 2021	As at 31 December 2020
Financial assets at fair value through other comprehensive income		
Debt securities		
Issuers in Chinese mainland		
— Government	**660,151**	691,638
— Public sectors and quasi-governments	**91,871**	88,092
— Policy banks	**349,691**	328,713
— Financial institutions	**184,391**	174,517
— Corporate	**140,000**	135,590
Issuers in Hong Kong (China), Macao (China), Taiwan (China) and other countries and regions		
— Governments	**480,401**	434,344
— Public sectors and quasi-governments	**30,507**	27,340
— Financial institutions	**97,024**	98,545
— Corporate	**117,130**	107,583
	2,151,166	2,086,362
Equity instruments	**23,816**	21,428
Total financial assets at fair value through other comprehensive income (2)	**2,174,982**	2,107,790
Financial assets at amortised cost		
Debt securities		
Issuers in Chinese mainland		
— Government	**2,382,485**	2,327,382
— Public sectors and quasi-governments	**56,314**	43,679
— Policy banks	**119,334**	93,376
— Financial institutions	**74,314**	59,250
— Corporate	**41,233**	39,529
— China Orient Asset Management Corporation (3)	**152,433**	152,433
Issuers in Hong Kong (China), Macao (China), Taiwan (China) and other countries and regions		
— Governments	**107,854**	103,432
— Public sectors and quasi-governments	**73,466**	37,950
— Financial institutions	**66,979**	59,762
— Corporate	**18,959**	19,166
	3,093,371	2,935,959
Investment trusts, asset management plans and other	**14,628**	14,447
Accrued interest	**36,963**	37,295
Less: allowance for impairment losses	**(9,007)**	(8,923)
Total financial assets at amortised cost	**3,135,955**	2,978,778
Total financial investments (5)	**5,821,520**	5,591,117

17 Financial investments (Continued)

	As at 30 June 2021	As at 31 December 2020
Analysed as follows:		
Financial assets at fair value through profit or loss		
— Listed in Hong Kong, China	**45,949**	48,718
— Listed outside Hong Kong, China (6)	**300,521**	283,523
— Unlisted	**164,113**	172,308
Financial assets at fair value through other comprehensive income		
Debt securities		
— Listed in Hong Kong, China	**309,295**	233,244
— Listed outside Hong Kong, China (6)	**1,456,951**	1,210,734
— Unlisted	**384,920**	642,384
Equity instruments		
— Listed in Hong Kong, China	**6,283**	6,031
— Listed outside Hong Kong, China (6)	**3,379**	3,141
— Unlisted	**14,154**	12,256
Financial assets at amortised cost (4)		
— Listed in Hong Kong, China	**36,873**	34,217
— Listed outside Hong Kong, China (6)	**2,830,063**	2,618,215
— Unlisted	**269,019**	326,346
Total	**5,821,520**	5,591,117
Listed in Hong Kong, China	**398,400**	322,210
Listed outside Hong Kong, China (6)	**4,590,914**	4,115,613
Unlisted	**832,206**	1,153,294
Total	**5,821,520**	5,591,117

(Amounts in millions of Renminbi, unless otherwise stated)

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

17 Financial investments (Continued)

(1) In order to eliminate or significantly reduce accounting mismatches, certain debt securities are designated as financial assets at fair value through profit or loss.

(2) The Group's accumulated impairment allowance for the debt securities at fair value through other comprehensive income as at 30 June 2021 amounted to RMB5,621 million (31 December 2020: RMB5,479 million).

(3) The Bank transferred certain non-performing assets to China Orient Asset Management Corporation ("China Orient") in 1999 and 2000 and China Orient issued a bond ("Orient Bond") with a par value of RMB160,000 million to the Bank as consideration. Based on the latest agreement, the Orient Bond will mature on 30 June 2025. The Ministry of Finance of the People's Republic of China ("MOF") shall continue to provide funding support for the principal and interest of the Orient Bond. The Bank received a notice from the MOF in January 2020, confirming that from 1 January 2020, the interest rate on the unpaid amounts will be verified year by year based on the rate of return of the five-year treasury bond of the previous year. As at 30 June 2021, the Bank had received early repayments of principal amounting to RMB7,567 million.

(4) Market values of the listed debt securities at amortised cost are set out below:

	As at 30 June 2021		As at 31 December 2020	
	Carrying value	**Market value**	**Carrying value**	**Market value**
Debt securities at amortised cost				
— Listed in Hong Kong, China	**36,873**	**37,957**	34,217	35,960
— Listed outside Hong Kong, China [(6)]	**2,830,063**	**2,858,379**	2,618,215	2,637,926

(5) As at 30 June 2021, RMB1,559 million of debt securities measured at fair value through other comprehensive income and at amortised cost of the Group was determined to be impaired and was included in Stage 3 (31 December 2020: RMB1,467 million) with impairment allowances fully provided (31 December 2020: with the impairment allowances fully provided); RMB566 million of debt securities was included in Stage 2 (31 December 2020: RMB404 million) with an impairment allowances of RMB2 million (31 December 2020: RMB1 million); and the remaining debt securities were included in Stage 1 with impairment allowances measured based on 12-month ECLs.

(6) Debt securities traded in the Chinese mainland interbank bond market are included in "Listed outside Hong Kong, China".

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

17 Financial investments (Continued)

Reconciliation of allowance for impairment losses on financial investments at amortised cost:

	Six month period ended 30 June 2021			
	12-month ECLs	Lifetime ECLs		
	Stage 1	Stage 2	Stage 3	Total
As at 1 January	**1,907**	**1**	**7,015**	**8,923**
Impairment losses/(reversal) for the period	**188**	**–**	**(91)**	**97**
Exchange differences and other	**(2)**	**–**	**(11)**	**(13)**
As at 30 June	**2,093**	**1**	**6,913**	**9,007**

	Year ended 31 December 2020			
	12-month ECLs	Lifetime ECLs		
	Stage 1	Stage 2	Stage 3	Total
As at 1 January	383	1	6,402	6,786
Impairment losses for the year	1,165	–	707	1,872
Write-off and transfer out	–	–	(24)	(24)
Exchange differences and other	359	–	(70)	289
As at 31 December	1,907	1	7,015	8,923

Reconciliation of allowance for impairment losses on financial investments at fair value through other comprehensive income:

	Six month period ended 30 June 2021			
	12-month ECLs	Lifetime ECLs		
	Stage 1	Stage 2	Stage 3	Total
As at 1 January	**4,979**	**–**	**500**	**5,479**
Impairment losses for the period	**147**	**1**	**–**	**148**
Exchange differences and other	**(6)**	**–**	**–**	**(6)**
As at 30 June	**5,120**	**1**	**500**	**5,621**

	Year ended 31 December 2020			
	12-month ECLs	Lifetime ECLs		
	Stage 1	Stage 2	Stage 3	Total
As at 1 January	1,250	4	–	1,254
Transfers to Stage 2	(1)	1	–	–
Transfers to Stage 3	(2)	(4)	6	–
Impairment losses for the year	3,751	–	–	3,751
Impairment (reversal)/losses due to stage transfers	–	(1)	494	493
Exchange differences and other	(19)	–	–	(19)
As at 31 December	4,979	–	500	5,479

(Amounts in millions of Renminbi, unless otherwise stated)

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

18 Property and equipment

	Six month period ended 30 June 2021				
	Buildings	Equipment and motor vehicles	Construction in progress	Aircraft	Total
Cost					
As at 1 January	122,464	73,337	31,281	141,025	368,107
Additions	1,161	808	1,564	6,858	10,391
Transfer from investment properties (Note III.19)	178	–	–	–	178
Construction in progress transfer in/(out)	422	198	(3,153)	2,533	–
Deductions	(454)	(1,238)	(1,453)	(2,311)	(5,456)
Exchange differences	(375)	(97)	(218)	(1,402)	(2,092)
As at 30 June	123,396	73,008	28,021	146,703	371,128
Accumulated depreciation					
As at 1 January	(42,814)	(57,839)	–	(17,302)	(117,955)
Additions	(1,997)	(3,077)	–	(2,436)	(7,510)
Deductions	303	1,195	–	713	2,211
Transfer to investment properties (Note III.19)	8	–	–	–	8
Exchange differences	85	74	–	176	335
As at 30 June	(44,415)	(59,647)	–	(18,849)	(122,911)
Allowance for impairment losses					
As at 1 January	(746)	–	(227)	(590)	(1,563)
Additions	(3)	–	–	(664)	(667)
Deductions	5	–	–	–	5
Exchange differences	(1)	–	–	7	6
As at 30 June	(745)	–	(227)	(1,247)	(2,219)
Net book value					
As at 1 January	78,904	15,498	31,054	123,133	248,589
As at 30 June	78,236	13,361	27,794	126,607	245,998

18 Property and equipment (Continued)

	Year ended 31 December 2020				
	Buildings	Equipment and motor vehicles	Construction in progress	Aircraft	Total
Cost					
As at 1 January	119,077	77,656	32,905	131,821	361,459
Additions	708	5,998	11,658	17,778	36,142
Transfer from/(to) investment properties (Note III.19)	485	–	(242)	–	243
Construction in progress transfer in/(out)	5,375	862	(9,230)	2,993	–
Deductions	(1,728)	(10,726)	(2,373)	(2,948)	(17,775)
Exchange differences	(1,453)	(453)	(1,437)	(8,619)	(11,962)
As at 31 December	122,464	73,337	31,281	141,025	368,107
Accumulated depreciation					
As at 1 January	(40,401)	(60,758)	–	(14,762)	(115,921)
Additions	(3,967)	(6,623)	–	(4,635)	(15,225)
Deductions	1,143	9,178	–	883	11,204
Transfer to investment properties (Note III.19)	18	–	–	–	18
Exchange differences	393	364	–	1,212	1,969
As at 31 December	(42,814)	(57,839)	–	(17,302)	(117,955)
Allowance for impairment losses					
As at 1 January	(767)	–	(227)	(4)	(998)
Additions	(1)	–	–	(623)	(624)
Deductions	16	–	–	4	20
Exchange differences	6	–	–	33	39
As at 31 December	(746)	–	(227)	(590)	(1,563)
Net book value					
As at 1 January	77,909	16,898	32,678	117,055	244,540
As at 31 December	78,904	15,498	31,054	123,133	248,589

(Amounts in millions of Renminbi, unless otherwise stated)

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

19 Investment properties

	Six month period ended 30 June 2021	Year ended 31 December 2020
As at 1 January	**22,065**	23,108
Additions	**568**	1,626
Transfer to property and equipment, net (Note III.18)	**(186)**	(261)
Deductions	**(1,289)**	(15)
Fair value changes (Note III.5)	**(116)**	(1,505)
Exchange differences	**(157)**	(888)
As at 30 June/31 December	**20,885**	22,065

20 Other assets

	As at 30 June 2021	As at 31 December 2020
Accounts receivable and prepayments	**167,694**	141,286
Right-of-use assets (1)	**21,299**	22,855
Intangible assets	**15,113**	15,614
Land use rights	**6,312**	6,526
Long-term deferred expense	**3,202**	3,215
Goodwill (2)	**2,507**	2,525
Repossessed assets (3)	**2,048**	2,120
Interest receivable	**1,022**	1,299
Other	**28,605**	21,756
Total	**247,802**	217,196

20 Other assets (Continued)

(1) Right-of-use assets

	Six month period ended 30 June 2021		
	Buildings	Motor vehicles and other	Total
Cost			
As at 1 January	**35,251**	**176**	**35,427**
Additions	**2,631**	**24**	**2,655**
Deductions	**(2,154)**	**(18)**	**(2,172)**
Exchange differences	**(110)**	**–**	**(110)**
As at 30 June	**35,618**	**182**	**35,800**
Accumulated depreciation			
As at 1 January	**(12,477)**	**(95)**	**(12,572)**
Additions	**(3,730)**	**(23)**	**(3,753)**
Deductions	**1,762**	**18**	**1,780**
Exchange differences	**44**	**–**	**44**
As at 30 June	**(14,401)**	**(100)**	**(14,501)**
Net book value			
As at 1 January	**22,774**	**81**	**22,855**
As at 30 June	**21,217**	**82**	**21,299**

	Year ended 31 December 2020		
	Buildings	Motor vehicles and other	Total
Cost			
As at 1 January	29,500	156	29,656
Additions	7,413	44	7,457
Deductions	(1,242)	(21)	(1,263)
Exchange differences	(420)	(3)	(423)
As at 31 December	35,251	176	35,427
Accumulated depreciation			
As at 1 January	(6,781)	(53)	(6,834)
Additions	(6,841)	(63)	(6,904)
Deductions	1,030	20	1,050
Exchange differences	115	1	116
As at 31 December	(12,477)	(95)	(12,572)
Net book value			
As at 1 January	22,719	103	22,822
As at 31 December	22,774	81	22,855

(Amounts in millions of Renminbi, unless otherwise stated)

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

20 Other assets(Continued)

(2) Goodwill

	Six month period ended 30 June 2021	Year ended 31 December 2020
As at 1 January	**2,525**	2,686
Decrease resulting from disposals of subsidiaries	**–**	(25)
Exchange differences	**(18)**	(136)
As at 30 June/31 December	**2,507**	2,525

The goodwill mainly arose from the acquisition of BOC Aviation Limited in 2006 amounting to USD241 million (equivalent to RMB1,555 million).

(3) As at 30 June 2021, the net book amount of repossessed assets was RMB2,048 million (31 December 2020: RMB2,120 million), mainly comprised properties. Related allowance for impairment was RMB890 million (31 December 2020: RMB902 million). The total book value of the repossessed assets disposed of for the six month period ended 30 June 2021 amounted to RMB233 million (2020: RMB602 million). The Group plans to dispose of the repossessed assets held at 30 June 2021 by auction, bidding or transfer.

21 Financial liabilities held for trading

As at 30 June 2021 and 31 December 2020, financial liabilities held for trading mainly included short position in debt securities.

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

22 Due to customers

	As at 30 June 2021	As at 31 December 2020
Demand deposits		
— Corporate deposits	**5,549,890**	4,956,751
— Personal deposits	**3,447,875**	3,355,893
Subtotal	**8,997,765**	8,312,644
Time deposits		
— Corporate deposits	**3,902,244**	3,621,775
— Personal deposits	**4,227,709**	3,854,531
Subtotal	**8,129,953**	7,476,306
Structured deposits (1)		
— Corporate deposits	**313,082**	254,553
— Personal deposits	**356,584**	379,680
Subtotal	**669,666**	634,233
Certificates of deposit	**153,689**	206,146
Other deposits	**71,442**	64,042
Subtotal due to customers	**18,022,515**	16,693,371
Accrued interest	**205,256**	185,800
Total due to customers (2)	**18,227,771**	16,879,171

(1) According to the Group's risk management policy, the Group enters into derivatives to hedge market risks arising from its structured deposits. The Group designates certain structured deposits as financial liabilities at fair value through profit or loss, to eliminate or significantly reduce accounting mismatch. As at 30 June 2021, the carrying amount of these financial liabilities was RMB30,199 million (31 December 2020: RMB25,742 million). The differences between the fair value and the amount that the Group would be contractually required to pay to the holders as at 30 June 2021 and 31 December 2020 were not significant. For the six month period ended 30 June 2021 and the year ended 31 December 2020, there was no significant change in the Group's credit risk nor changes in the fair value of these financial liabilities as a result.

(2) Due to customers included margin deposits for security received by the Group as at 30 June 2021 of RMB321,645 million (31 December 2020: RMB304,314 million).

(Amounts in millions of Renminbi, unless otherwise stated)

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

23 Bonds issued

	Issue date	Maturity date	Annual interest rate	As at 30 June 2021	As at 31 December 2020
Bonds issued at amortised cost					
Subordinated bonds issued					
2011 RMB Debt Securities (1)	17 May 2011	19 May 2026	5.30%	–	32,000
2012 RMB Debt Securities Second Tranche (2)	27 November 2012	29 November 2027	4.99%	**18,000**	18,000
Subtotal (15)				**18,000**	50,000
Tier 2 capital bonds issued					
2014 US Dollar Debt Securities (3)	13 November 2014	13 November 2024	5.00%	**19,326**	19,518
2017 RMB Debt Securities First Tranche (4)	26 September 2017	28 September 2027	4.45%	**29,972**	29,970
2017 RMB Debt Securities Second Tranche (5)	31 October 2017	2 November 2027	4.45%	**29,970**	29,972
2018 RMB Debt Securities First Tranche (6)	3 September 2018	5 September 2028	4.86%	**39,987**	39,983
2018 RMB Debt Securities Second Tranche (7)	9 October 2018	11 October 2028	4.84%	**39,985**	39,985
2019 RMB Debt Securities First Tranche 01 (8)	20 September 2019	24 September 2029	3.98%	**29,989**	29,988
2019 RMB Debt Securities First Tranche 02 (9)	20 September 2019	24 September 2034	4.34%	**9,996**	9,996
2019 RMB Debt Securities Second Tranche (10)	20 November 2019	22 November 2029	4.01%	**29,988**	29,991
2020 RMB Debt Securities First Tranche 01 (11)	17 September 2020	21 September 2030	4.20%	**59,977**	59,976
2020 RMB Debt Securities First Tranche 02 (12)	17 September 2020	21 September 2035	4.47%	**14,994**	14,994
2021 RMB Debt Securities First Tranche 01 (13)	17 March 2021	19 March 2031	4.15%	**14,994**	–
2021 RMB Debt Securities First Tranche 02 (14)	17 March 2021	19 March 2036	4.38%	**9,996**	–
Subtotal (15)				**329,174**	304,373
Other bonds issued (16)					
US Dollar Debt Securities				**191,015**	198,317
RMB Debt Securities				**82,387**	73,165
Other				**49,372**	51,555
Subtotal				**322,774**	323,037
Negotiable certificates of deposit				**618,023**	554,801
Subtotal bonds issued at amortised cost				**1,287,971**	1,232,211
Bonds issued at fair value (17)				**1,008**	6,162
Subtotal bonds issued				**1,288,979**	1,238,373
Accrued interest				**12,582**	6,030
Total bonds issued (18)				**1,301,561**	1,244,403

23 Bonds issued (Continued)

(1) The subordinated bonds issued on 17 May 2011 have a maturity of 15 years with a fixed coupon rate of 5.30%, paid annually. The Bank is entitled to early redeem all the subordinated bonds at the end of the tenth year. The Bank has redeemed all the bonds in advance at face value on 19 May 2021.

(2) The second subordinated bonds issued on 27 November 2012 have a maturity of 15 years with a fixed coupon rate of 4.99%, paid annually. The Bank is entitled to early redeem all these bonds at the end of the tenth year. If the Bank does not exercise this option, the coupon rate of the bonds for the remaining 5-year period shall remain fixed at 4.99%.

(3) The Bank issued tier 2 capital bonds in an amount of USD3 billion on 13 November 2014. The bonds have a maturity of 10 years with a fixed coupon rate of 5.00%.

(4) The Bank issued tier 2 capital bonds in an amount of RMB30 billion on 26 September 2017. The bonds have a maturity of 10 years with a fixed coupon rate of 4.45%. The Bank is entitled to redeem the bonds at the end of the fifth year.

(5) The Bank issued tier 2 capital bonds in an amount of RMB30 billion on 31 October 2017. The bonds have a maturity of 10 years with a fixed coupon rate of 4.45%. The Bank is entitled to redeem the bonds at the end of the fifth year.

(6) The Bank issued tier 2 capital bonds in an amount of RMB40 billion on 3 September 2018. The bonds have a maturity of 10 years with a fixed coupon rate of 4.86%. The Bank is entitled to redeem the bonds at the end of the fifth year.

(7) The Bank issued tier 2 capital bonds in an amount of RMB40 billion on 9 October 2018. The bonds have a maturity of 10 years with a fixed coupon rate of 4.84%. The Bank is entitled to redeem the bonds at the end of the fifth year.

(8) The Bank issued tier 2 capital bonds in an amount of RMB30 billion on 20 September 2019. The bonds have a maturity of 10 years with a fixed coupon rate of 3.98%. The Bank is entitled to redeem the bonds at the end of the fifth year.

(9) The Bank issued tier 2 capital bonds in an amount of RMB10 billion on 20 September 2019. The bonds have a maturity of 15 years with a fixed coupon rate of 4.34%. The Bank is entitled to redeem the bonds at the end of the tenth year.

(10) The Bank issued tier 2 capital bonds in an amount of RMB30 billion on 20 November 2019. The bonds have a maturity of 10 years with a fixed coupon rate of 4.01%. The Bank is entitled to redeem the bonds at the end of the fifth year.

(11) The Bank issued tier 2 capital bonds in an amount of RMB60 billion on 17 September 2020. The bonds have a maturity of 10 years with a fixed coupon rate of 4.20%. The Bank is entitled to redeem the bonds at the end of the fifth year.

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

23 Bonds issued (Continued)

(12) The Bank issued tier 2 capital bonds in an amount of RMB15 billion on 17 September 2020. The bonds have a maturity of 15 years with a fixed coupon rate of 4.47%. The Bank is entitled to redeem the bonds at the end of the tenth year.

(13) The Bank issued tier 2 capital bonds in an amount of RMB15 billion on 17 March 2021. The bonds have a maturity of 10 years with a fixed coupon rate of 4.15%. The Bank is entitled to redeem the bonds at the end of the fifth year.

(14) The Bank issued tier 2 capital bonds in an amount of RMB10 billion on 17 March 2021. The bonds have a maturity of 15 years with a fixed coupon rate of 4.38%. The Bank is entitled to redeem the bonds at the end of the tenth year.

(15) The claims of the holders of subordinated bonds and tier 2 capital bonds will be subordinated to the claims of depositors and general creditors.

(16) US Dollar Debt Securities, RMB Debt Securities and other Debt Securities were issued in Chinese mainland, Hong Kong (China), Macao (China), Taiwan (China) and other countries and regions between 2013 and 30 June 2021 by the Group with dates of maturity ranging from 1 July 2021 to 31 December 2030.

(17) According to the Group's risk management policy, the Group enters into derivatives to hedge market risks arising from its bonds issued. The Group designates certain bonds issued as financial liabilities at fair value through profit or loss, to eliminate or significantly reduce accounting mismatch. As at 30 June 2021, the carrying amount of the above-mentioned bonds issued by the Group was RMB1,008 million (31 December 2020: RMB6,162 million). The differences between the fair value and the amount that the Group would be contractually required to pay to the holders as at 30 June 2021 and 31 December 2020 were not significant. For the six month period ended 30 June 2021 and the year ended 31 December 2020, there was no significant change in the Group's credit risk nor changes in the fair value of these financial liabilities as a result.

(18) For the six month period ended 30 June 2021 and the year ended 31 December 2020, the Group did not default on any principal, interest or redemption amounts with respect to its bonds issued.

24 Deferred income taxes

24.1 Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes are related to the same fiscal authority. The table below includes the deferred income tax assets and liabilities of the Group after offsetting qualifying amounts and the related temporary differences.

	As at 30 June 2021		As at 31 December 2020	
	Temporary differences	Deferred tax assets/ (liabilities)	Temporary differences	Deferred tax assets/ (liabilities)
Deferred income tax assets	**185,724**	**48,650**	234,905	58,916
Deferred income tax liabilities	**(38,807)**	**(6,834)**	(45,934)	(6,499)
Net	**146,917**	**41,816**	188,971	52,417

24.2 Deferred income tax assets/liabilities and related temporary differences, before offsetting qualifying amounts, are attributable to the following items:

	As at 30 June 2021		As at 31 December 2020	
	Temporary differences	Deferred tax assets/ (liabilities)	Temporary differences	Deferred tax assets/ (liabilities)
Deferred income tax assets				
Asset impairment allowances	**250,747**	**62,440**	253,785	63,242
Pension, retirement benefits and salary payables	**14,638**	**3,635**	17,952	4,470
Financial instruments at fair value through profit or loss and derivative financial instruments	**89,330**	**22,200**	174,011	43,224
Financial assets at fair value through other comprehensive income	**1,105**	**273**	809	202
Other temporary differences	**40,728**	**9,540**	41,355	9,599
Subtotal	**396,548**	**98,088**	487,912	120,737
Deferred income tax liabilities				
Financial instruments at fair value through profit or loss and derivative financial instruments	**(119,149)**	**(29,195)**	(174,976)	(42,853)
Financial assets at fair value through other comprehensive income	**(30,973)**	**(7,567)**	(30,836)	(7,445)
Depreciation and amortisation	**(23,868)**	**(4,072)**	(24,104)	(4,193)
Revaluation of property and investment properties	**(8,875)**	**(1,733)**	(8,845)	(1,722)
Other temporary differences	**(66,766)**	**(13,705)**	(60,180)	(12,107)
Subtotal	**(249,631)**	**(56,272)**	(298,941)	(68,320)
Net	**146,917**	**41,816**	188,971	52,417

As at 30 June 2021, deferred tax liabilities relating to temporary differences of RMB173,307 million associated with the Group's investments in subsidiaries have not been recognised (31 December 2020: RMB164,299 million).

(Amounts in millions of Renminbi, unless otherwise stated)

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

24 Deferred income taxes (Continued)

24.3 Movements of the deferred income tax are as follows:

	Six month period ended 30 June 2021	Year ended 31 December 2020
As at 1 January	**52,417**	38,577
Credited to the income statement (Note III.9)	**(10,595)**	14,268
Charged to other comprehensive income	**65**	(62)
Other	**(71)**	(366)
As at 30 June/31 December	**41,816**	52,417

24.4 Breakdowns of deferred income tax credit/(charge) in the condensed consolidated interim income statement are as follows:

	Six month period ended 30 June	
	2021	2020
Asset impairment allowances	**(802)**	11,915
Financial instruments at fair value through profit or loss and derivative financial instruments	**(7,366)**	433
Pension, retirement benefits and salary payables	**(835)**	(1,301)
Other temporary differences	**(1,592)**	(2,766)
Total	**(10,595)**	8,281

25 Other liabilities

	As at 30 June 2021	As at 31 December 2020
Insurance liabilities		
— Life insurance contracts	**142,723**	132,431
— Non-life insurance contracts	**10,377**	9,670
Items in the process of clearance and settlement	**86,843**	78,940
Dividends payable	**1,255**	2,312
Salary and welfare payables	**27,304**	34,179
Provision		
— Allowance for credit commitments	**27,015**	28,767
— Allowance for litigation losses (Note III. 28.1)	**704**	725
Lease liabilities	**20,981**	21,893
Deferred income	**12,214**	11,532
Other	**102,485**	89,924
Total	**431,901**	410,373

26 Other equity instruments

Movements of the Bank's other equity instruments are as follows:

	As at 1 January 2021		Increase/(decrease)		As at 30 June 2021	
	Quantity (million shares)	Carrying amount	Quantity (million shares)	Carrying amount	Quantity (million shares)	Carrying amount
Preference Shares						
Domestic Preference Shares (Second Tranche) [(1)]	280.0	27,969	(280.0)	(27,969)	–	–
Domestic Preference Shares (Third Tranche)	730.0	72,979	–	–	730.0	72,979
Domestic Preference Shares (Fourth Tranche)	270.0	26,990	–	–	270.0	26,990
Offshore Preference Shares (Second Tranche)	197.9	19,581	–	–	197.9	19,581
Subtotal [(2)]	1,477.9	147,519	(280.0)	(27,969)	1,197.9	119,550
Perpetual Bonds						
2019 Undated Capital Bonds (Series 1)		39,992		–		39,992
2020 Undated Capital Bonds (Series 1)		39,990		–		39,990
2020 Undated Capital Bonds (Series 2)		29,994		–		29,994
2020 Undated Capital Bonds (Series 3)		19,995		–		19,995
2021 Undated Capital Bonds (Series 1) [(3)]		–		49,989		49,989
Subtotal [(4)]		129,971		49,989		179,960
Total		277,490		22,020		299,510

(1) With the approvals by the relevant regulatory authorities in China, the Bank fully redeemed 280 million Domestic Preference Shares (Second Tranche) on 15 March 2021. The Bank fully paid the nominal value of the Domestic Preference Shares and the dividends declared, totalling RMB29,540 million.

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

26 Other equity instruments (Continued)

(2) Save for such dividend at the agreed dividend payout ratio, the holders of the above preference shares shall not be entitled to share in the distribution of the remaining profits of the Bank together with the holders of the ordinary shares. The above preference shares bear non-cumulative dividend. The Bank shall be entitled to cancel any dividend on the preference shares, and such cancellation shall not constitute a default. However, the Bank shall not distribute profits to ordinary shareholders until resumption of full payment of dividends on the preference shares. Upon the occurrence of a trigger event for the compulsory conversion of preference shares into ordinary shares per agreement, the Bank shall convert the preference shares into ordinary shares in whole or in part after reporting to the China Banking and Insurance Regulatory Commission (the "CBIRC") for its examination and approval decision.

Capital raised from the issuance of the above preference shares, after deduction of transaction costs, was fully used to replenish the Bank's additional tier 1 capital and to increase its capital adequacy ratio.

(3) With the approvals by the relevant regulatory authorities in China, the Bank issued RMB50,000 million write-down undated capital bonds in the Chinese mainland interbank bond market on 17 May 2021 and completed the issuance on 19 May 2021. The denomination of the bonds is RMB100 each, and the annual interest rate of the bonds for the first five years is 4.08%, which is reset every 5 years.

The Bank may redeem the bonds in whole or in part on each distribution payment date after 5 years from the issuance date of the bonds, subject to the satisfaction of the redemption conditions and prior approval by the CBIRC. As stipulated in *Bank of China Limited 2021 undated Capital Bonds (Series 1) Offering Circular*, upon the occurrence of a trigger event for write-downs with the consent of the CBIRC, the Bank has the right to write down all or part of the total par value of the bonds that are already issued and outstanding. This does not require prior consent by the bondholders. The claims of the holders of the bonds will be subordinated to the claims of depositors, general creditors and subordinated indebtedness that ranks senior to the bonds; 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.

(4) The bonds bear non-cumulative interest and the Bank shall have the right to cancel distributions on the bonds in whole or in part and such cancellation shall not constitute a default. The Bank may at its discretion utilise the proceeds from the cancelled distributions to meet other obligations of maturing debts. The Bank shall not distribute profits to ordinary shareholders until the resumption of full interest payment to the holders of the bonds.

Capital raised from the issuance of the bonds, after deduction of transaction costs, was fully used to replenish the Bank's additional tier 1 capital and to increase its capital adequacy ratio.

27 Dividends

Dividends for Ordinary Shares

A dividend of RMB1.97 per ten ordinary shares (pre-tax) in respect of the profit for the year ended 31 December 2020 amounting to RMB57,994 million (pre-tax) was approved at the Annual General Meeting held on 20 May 2021. The distribution plan has been accomplished as at 30 June 2021.

27 Dividends (Continued)

Dividends for Preference Shares

Dividend distributions of Domestic Preference Shares (Third Tranche and Fourth Tranche) were approved by the Board of Directors of the Bank at the Board Meeting held on 29 April 2021. Dividend of Domestic Preference Shares (Third Tranche) amounting to RMB3,285 million (pre-tax) was distributed on 28 June 2021. Dividend of Domestic Preference Shares (Fourth Tranche) amounting to RMB1,174.5 million (pre-tax) was distributed on 30 August 2021 and was recorded in other liabilities as at 30 June 2021.

Interest on Perpetual Bonds

The Bank distributed interest on the 2019 Undated Capital Bonds (Series 1) amounting to RMB1,800 million on 29 January 2021.

The Bank distributed interest on the 2020 Undated Capital Bonds (Series 1) amounting to RMB1,360 million on 30 April 2021.

28 Contingent liabilities and commitments

28.1 Legal proceedings and arbitrations

As at 30 June 2021, the Group was involved in certain litigation and arbitration cases in the regular course of its business. In addition, in terms of the range and scale of its international operations, the Group may face a variety of legal proceedings within different jurisdictions. As at 30 June 2021, provisions of RMB704 million (31 December 2020: RMB725 million) were made based on court judgements or the advice of counsel (Note III.25). After consulting legal professionals, the senior management of the Group believes that at the current stage these legal proceedings and arbitrations will not have a material impact on the financial position or operating results of the Group.

28.2 Assets pledged

Assets pledged by the Group as collateral mainly for placement, repurchase, short positions, derivative transactions with other banks and financial institutions and for local statutory requirements are set forth in the table below. These transactions are conducted under standard and normal business terms.

	As at 30 June 2021	As at 31 December 2020
Debt securities	**1,062,346**	666,236
Bills	**1,776**	2,127
Total	**1,064,122**	668,363

(Amounts in millions of Renminbi, unless otherwise stated)

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

28 Contingent liabilities and commitments (Continued)

28.3 Collateral accepted

The Group accepts securities as collateral that are permitted to be sold or re-pledged in connection with reverse repurchase and derivative agreements with banks and other financial institutions. As at 30 June 2021, the fair value of such collateral from banks and other financial institutions accepted by the Group amounted to RMB381,313 million (31 December 2020: RMB151,204 million). As at 30 June 2021, the fair value of the collateral that the Group had sold or re-pledged but was obligated to return, amounted to RMB1,946 million (31 December 2020: RMB797 million). These transactions are conducted under standard terms in the normal course of business.

28.4 Capital commitments

	As at 30 June 2021	As at 31 December 2020
Property and equipment		
— Contracted but not provided for	**40,343**	46,723
— Authorised but not contracted for	**2,510**	3,468
Intangible assets		
— Contracted but not provided for	**1,615**	1,242
— Authorised but not contracted for	**186**	199
Investment properties		
— Contracted but not provided for	**1,116**	1,252
Total	**45,770**	52,884

28.5 Treasury bonds redemption commitments

The Bank is entrusted by the MOF to underwrite certain treasury bonds. The investors of these treasury bonds have a right to redeem the bonds at any time prior to maturity and the Bank is committed to redeem these treasury bonds. The MOF will not provide funding for the early redemption of these treasury bonds on a back-to-back basis but will pay interest and repay the principal at maturity. The redemption price is the principal value of the bonds plus unpaid interest in accordance with the early redemption arrangement.

As at 30 June 2021, the outstanding principal value of the treasury bonds sold by the Bank under obligation to redeem prior to maturity amounted to RMB54,547 million (31 December 2020: RMB55,597 million). The original maturities of these treasury bonds vary from 3 to 5 years and management expects the amount of redemption through the Bank prior to the maturity dates of these bonds will not be material.

28 Contingent liabilities and commitments (Continued)

28.6 Credit commitments

	As at 30 June 2021	As at 31 December 2020
Loan commitments [1]		
— with an original maturity of less than 1 year	**294,137**	262,001
— with an original maturity of 1 year or above	**1,581,696**	1,417,031
Undrawn credit card limits	**1,056,451**	1,060,580
Letters of guarantee issued [2]	**1,028,835**	1,035,517
Bank bill acceptance	**321,135**	301,602
Letters of credit issued	**160,751**	154,181
Accepted bills of exchange under letters of credit	**76,280**	81,817
Other	**234,421**	178,944
Total [3]	**4,753,706**	4,491,673

(1) Loan commitments mainly represent undrawn loan facilities agreed and granted to customers. Unconditionally revocable loan commitments are not included in loan commitments. As at 30 June 2021, the unconditionally revocable loan commitments of the Group amounted to RMB298,717 million (31 December 2020: RMB334,384 million).

(2) Letters of guarantee issued mainly include financial guarantees and performance guarantees. These obligations on the Group to make payments are dependent on the outcome of a future event.

(3) Risk-weighted assets for credit risk of credit commitments

The risk-weighted assets for credit risk of the Group are calculated in accordance with the *Capital Rules for Commercial Banks (Provisional)* and other relevant regulations under the advanced capital measurement approaches. The amounts are determined based on the creditworthiness of the counterparties, the maturity characteristics of each type of contracts and other factors.

	As at 30 June 2021	As at 31 December 2020
Credit commitments	**1,192,917**	1,186,895

28.7 Underwriting obligations

As at 30 June 2021, the firm commitment in underwriting securities of the Group amounted to RMB1,750 million (31 December 2020: Nil).

(Amounts in millions of Renminbi, unless otherwise stated)

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

29 Note to the condensed consolidated interim statement of cash flows

For the purpose of the condensed consolidated interim statement of cash flows, cash and cash equivalents comprise the following balances with an original maturity of less than three months:

	As at 30 June 2021	As at 30 June 2020
Cash and due from banks and other financial institutions	**470,009**	375,854
Balances with central banks	**602,670**	591,528
Placements with and loans to banks and other financial institutions	**795,151**	680,996
Financial investments	**111,727**	71,391
Total	**1,979,557**	1,719,769

30 Related party transactions

30.1 China Investment Corporation ("CIC") was established on 29 September 2007 with registered capital of RMB1,550 billion. CIC is a wholly state-owned company engaging in foreign currency investment management. The Group is subject to the control of the State Council of the PRC Government through CIC and its wholly owned subsidiary, Central Huijin Investment Ltd. ("Huijin").

The Group entered into banking transactions with CIC in the normal course of its business on commercial terms.

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

30 Related party transactions (Continued)

30.2 Transactions with Huijin and companies under Huijin

(1) *General information of Huijin*

Central Huijin Investment Ltd.

Legal representative	PENG Chun
Registered capital	RMB828,209 million
Location of registration	Beijing
Capital shares in the Bank	64.02%
Voting rights in the Bank	64.02%
Nature	Wholly state-owned company
Principal activities	Investment in major state-owned financial institutions on behalf of the State Council; other related businesses approved by the State Council.
Unified social credit code	911000007109329615

(2) *Transactions with Huijin*

The Group enters into banking transactions with Huijin in the normal course of its business on commercial terms. Purchase of the bonds issued by Huijin was in the normal course of business and in compliance with the requirements of the related regulations and corporate governance.

Transaction balances

	As at 30 June 2021	As at 31 December 2020
Investment in debt securities	**39,470**	43,659
Due to Huijin	**(40,742)**	(18,047)

Transaction amounts

	Six month period ended 30 June	
	2021	2020
Interest income	**598**	389
Interest expense	**(197)**	(35)

(Amounts in millions of Renminbi, unless otherwise stated)

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

30 Related party transactions (Continued)

30.2 Transactions with Huijin and companies under Huijin (Continued)

(3) Transactions with companies under Huijin

Companies under Huijin include its equity interests in subsidiaries, associates and joint ventures in certain other bank and non-bank entities in the PRC. The Group enters into banking transactions with these companies in the normal course of business on commercial terms which include mainly purchase and sale of debt securities, money market transactions and derivative transactions.

In the normal course of business, main transactions that the Group entered into with the affiliates of Huijin are as follows:

Transaction balances

	As at 30 June 2021	As at 31 December 2020
Due from banks and other financial institutions	**119,050**	126,104
Placements with and loans to banks and other financial institutions	**155,763**	144,640
Financial investments	**393,868**	390,508
Derivative financial assets	**12,561**	18,863
Loans and advances to customers	**50,080**	85,650
Due to customers, banks and other financial institutions	**(342,628)**	(256,582)
Placements from banks and other financial institutions	**(171,090)**	(137,131)
Derivative financial liabilities	**(19,883)**	(21,294)
Credit commitments	**41,933**	32,177

Transaction amounts

	Six month period ended 30 June	
	2021	2020
Interest income	**7,292**	6,487
Interest expense	**(3,226)**	(2,414)

30 Related party transactions (Continued)

30.3 Transactions with government authorities, agencies, affiliates and other state-controlled entities

The State Council of the PRC government directly and indirectly controls a significant number of entities through its government authorities, agencies, affiliates and other state-controlled entities. The Group enters into extensive banking transactions with these entities in the normal course of business on commercial terms.

Transactions conducted with government authorities, agencies, affiliates and other state-controlled entities include purchase and redemption of investment securities issued by government agencies, underwriting and distribution of treasury bonds issued by government agencies, foreign exchange transactions and derivative transactions, lending, provision of credit and guarantees and deposit taking.

30.4 Transactions with associates and joint ventures

The Group enters into banking transactions with associates and joint ventures in the normal course of business on commercial terms. These include loans and advances, deposit taking and other normal banking businesses. In the normal course of the business, the main transactions that the Group entered into with associates and joint ventures are as follows:

Transaction balances

	As at 30 June 2021	As at 31 December 2020
Loans and advances to customers	**22,601**	18,502
Due to customers, banks and other financial institutions	**(22,360)**	(10,641)
Credit commitments	**24,907**	23,144

Transaction amounts

	Six month period ended 30 June	
	2021	**2020**
Interest income	**393**	35
Interest expense	**(153)**	(141)

(Amounts in millions of Renminbi, unless otherwise stated)

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

30 Related party transactions (Continued)

30.5 Transactions with the Annuity Fund

Apart from the obligations for defined contributions to the Annuity Fund and normal banking transactions, no other transactions were conducted between the Group and the Annuity Fund for the six month period ended 30 June 2021 and the year ended 31 December 2020.

30.6 Transactions with key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including Directors and Executive Officers.

The Group enters into banking transactions with key management personnel in the normal course of business. During the six month period ended 30 June 2021 and the year ended 31 December 2020, there were no material transactions and balances with key management personnel on an individual basis.

30.7 Transactions with Connected Natural Persons

As at 30 June 2021, the Bank's balance of loans to the connected natural persons as defined in the *Administration of Connected Transactions between Commercial Banks and Their Insiders and Shareholders* and the *Administrative Measures for the Disclosure of Information of Listed Companies* totalled RMB363 million (31 December 2020: RMB365 million) and RMB14 million (31 December 2020: RMB20 million), respectively.

30.8 Transactions with subsidiaries

The main transactions with subsidiaries are as follows:

Transaction balances

	As at 30 June 2021	As at 31 December 2020
Due from banks and other financial institutions	**45,177**	31,487
Placements with and loans to banks and other financial institutions	**229,506**	184,792
Due to banks and other financial institutions	**(162,844)**	(190,167)
Placements from banks and other financial institutions	**(35,749)**	(28,057)

Transaction amounts

	Six month period ended 30 June	
	2021	2020
Interest income	**881**	1,305
Interest expense	**(758)**	(639)

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

31 Segment reporting

The Group manages the business from both geographic and business perspectives. From the geographic perspective, the Group operates in three principal regions: Chinese mainland; Hong Kong (China), Macao (China), Taiwan (China); and other countries and regions. From the business perspective, the Group provides services through six main business segments: corporate banking, personal banking, treasury operations, investment banking, insurance and other operations.

Measurement of segment assets, liabilities, income, expenses, results and capital expenditure is based on the Group's accounting policies. The segment information presented includes items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Funding is provided to and from individual business segments through treasury operations as part of the asset and liability management process. The pricing of these transactions is based on market rates. The transfer price takes into account the specific features and maturities of the products. Internal transactions are eliminated on consolidation. The Group regularly examines the transfer price and adjusts the price to reflect current situation.

Geographical segments

Chinese mainland — Corporate banking, personal banking, treasury operations and insurance services, etc. are performed in Chinese mainland.

Hong Kong (China), Macao (China), Taiwan (China) — Corporate banking, personal banking, treasury operations, investment banking and insurance services are performed in Hong Kong (China), Macao (China), Taiwan (China). The business of this segment is centralised in BOC Hong Kong (Group) Limited ("BOCHK Group").

Other countries and regions — Corporate and personal banking services are provided in other countries and regions. Significant locations include New York, London, Singapore and Tokyo.

Business segments

Corporate banking — Services to corporate customers, government authorities and financial institutions including current accounts, deposits, overdrafts, loans, payments and settlements, trade-related products and other credit facilities, foreign currency, derivative products and wealth management products.

Personal banking — Services to retail customers including saving deposits, personal loans, credit cards and debit cards, payments and settlements, wealth management products and funds and insurance agency services.

Treasury operations — Consisting of foreign exchange transactions, customer-based interest rate and foreign exchange derivative transactions, money market transactions, proprietary trading and asset and liability management. The results of this segment include the inter-segment funding income and expenses, results from interest-bearing assets and liabilities; and foreign currency translation gains and losses.

Investment banking — Consisting of debt and equity underwriting and financial advisory, sales and trading of securities, stock brokerage, investment research and asset management services, and private equity investment services.

Insurance — Underwriting of general and life insurance business and insurance agency services.

Other — Other operations of the Group comprise investment holding business, leasing business and other miscellaneous activities, none of which constitutes a separately reportable segment.

(Amounts in millions of Renminbi, unless otherwise stated)

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

31 Segment reporting (Continued)

As at and for the six month period ended 30 June 2021

	Chinese mainland	Hong Kong (China), Macao (China), Taiwan (China)			Other countries and regions	Eliminations	Total
		BOCHK Group	Other	Subtotal			
Interest income	352,839	16,992	11,661	28,653	11,117	(5,675)	386,934
Interest expense	(168,646)	(3,231)	(8,391)	(11,622)	(3,568)	5,675	(178,161)
Net interest income	184,193	13,761	3,270	17,031	7,549	–	208,773
Fee and commission income	41,778	6,520	4,199	10,719	3,030	(2,615)	52,912
Fee and commission expense	(4,732)	(1,243)	(1,142)	(2,385)	(922)	1,940	(6,099)
Net fee and commission income	37,046	5,277	3,057	8,334	2,108	(675)	46,813
Net trading gains	4,439	1,479	3,533	5,012	303	–	9,754
Net gains on transfers of financial assets	1,228	376	28	404	220	–	1,852
Other operating income (1)	11,054	8,276	16,522	24,798	99	(288)	35,663
Operating income	237,960	29,169	26,410	55,579	10,279	(963)	302,855
Operating expenses (1)	(70,762)	(14,314)	(14,576)	(28,890)	(3,728)	1,023	(102,357)
Impairment losses on assets	(49,192)	(985)	(1,312)	(2,297)	(1,456)	–	(52,945)
Operating profit	118,006	13,870	10,522	24,392	5,095	60	147,553
Share of results of associates and joint ventures	322	(111)	538	427	–	–	749
Profit before income tax	118,328	13,759	11,060	24,819	5,095	60	148,302
Income tax expense							(29,755)
Profit for the period							118,547
Segment assets	20,829,870	3,159,567	1,654,846	4,814,413	2,154,944	(1,517,452)	26,281,775
Investments in associates and joint ventures	20,627	738	14,187	14,925	–	–	35,552
Total assets	20,850,497	3,160,305	1,669,033	4,829,338	2,154,944	(1,517,452)	26,317,327
Include: non-current assets(2)	113,811	26,955	171,334	198,289	9,471	(2,835)	318,736
Segment liabilities	19,084,672	2,917,323	1,519,501	4,436,824	2,082,854	(1,517,371)	24,086,979
Other segment items:							
Inter-segment net interest (expense)/income	(2,479)	533	2,390	2,923	(444)	–	–
Inter-segment net fee and commission (expense)/income	(142)	208	257	465	352	(675)	–
Capital expenditure	3,012	465	7,554	8,019	102	–	11,133
Depreciation and amortisation	10,085	915	3,140	4,055	438	(274)	14,304
Credit commitments	4,020,041	306,134	151,283	457,417	529,861	(253,613)	4,753,706

31 Segment reporting (Continued)

As at 31 December 2020 and for the six month period ended 30 June 2020

	Chinese mainland	Hong Kong (China), Macao (China), Taiwan (China) BOCHK Group	Other	Subtotal	Other countries and regions	Eliminations	Total
Interest income	333,677	25,974	16,905	42,879	19,246	(11,354)	384,448
Interest expense	(156,042)	(9,187)	(13,671)	(22,858)	(11,489)	11,354	(179,035)
Net interest income	177,635	16,787	3,234	20,021	7,757	–	205,413
Fee and commission income	37,287	5,747	3,817	9,564	2,944	(1,809)	47,986
Fee and commission expense	(4,040)	(1,237)	(1,086)	(2,323)	(958)	1,159	(6,162)
Net fee and commission income	33,247	4,510	2,731	7,241	1,986	(650)	41,824
Net trading gains	(3,429)	2,259	2,599	4,858	744	–	2,173
Net gains on transfers of financial assets	4,819	2,331	114	2,445	359	–	7,623
Other operating income (1)	8,461	7,797	13,176	20,973	795	(279)	29,950
Operating income	220,733	33,684	21,854	55,538	11,641	(929)	286,983
Operating expenses (1)	(63,039)	(14,504)	(10,639)	(25,143)	(3,712)	948	(90,946)
Impairment losses on assets	(60,395)	(1,239)	(1,364)	(2,603)	(3,486)	–	(66,484)
Operating profit	97,299	17,941	9,851	27,792	4,443	19	129,553
Share of results of associates and joint ventures	(105)	(76)	244	168	–	–	63
Profit before income tax	97,194	17,865	10,095	27,960	4,443	19	129,616
Income tax expense							(21,804)
Profit for the period							107,812
Segment assets	19,434,557	2,762,985	1,529,898	4,292,883	2,090,165	(1,448,454)	24,369,151
Investments in associates and joint ventures	19,712	858	12,938	13,796	–	–	33,508
Total assets	19,454,269	2,763,843	1,542,836	4,306,679	2,090,165	(1,448,454)	24,402,659
Include: non-current assets (2)	119,001	27,626	170,894	198,520	9,939	(2,980)	324,480
Segment liabilities	17,753,122	2,520,219	1,396,881	3,917,100	2,017,915	(1,448,315)	22,239,822
Other segment items:							
Inter-segment net interest (expense)/income	(2,445)	345	4,112	4,457	(2,012)	–	–
Inter-segment net fee and commission income/ (expense)	368	176	257	433	(151)	(650)	–
Capital expenditure	2,238	625	16,269	16,894	80	–	19,212
Depreciation and amortisation	9,438	988	3,001	3,989	391	(220)	13,598
Credit commitments	3,753,654	310,620	145,806	456,426	507,083	(225,490)	4,491,673

(1) Other operating income includes insurance premium income earned, and operating expenses include insurance benefits and claims.

(2) Non-current assets include property and equipment, investment properties, right-of-use assets, intangible assets and other long-term assets.

(Amounts in millions of Renminbi, unless otherwise stated)

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

31 Segment reporting (Continued)

As at and for the six month period ended 30 June 2021

	Corporate banking	Personal banking	Treasury operations	Investment banking	Insurance	Other	Eliminations	Total
Interest income	168,982	152,919	93,559	643	1,873	2,045	(33,087)	386,934
Interest expense	(84,959)	(65,393)	(57,503)	(95)	(83)	(3,215)	33,087	(178,161)
Net interest income/(expense)	84,023	87,526	36,056	548	1,790	(1,170)	–	208,773
Fee and commission income	19,167	20,616	9,846	3,890	–	1,108	(1,715)	52,912
Fee and commission expense	(636)	(3,223)	(647)	(1,166)	(1,857)	(55)	1,485	(6,099)
Net fee and commission income/(expense)	18,531	17,393	9,199	2,724	(1,857)	1,053	(230)	46,813
Net trading gains	971	576	4,336	357	481	2,994	39	9,754
Net gains on transfers of financial assets	933	130	694	16	68	11	–	1,852
Other operating income	240	6,156	188	180	18,296	12,173	(1,570)	35,663
Operating income	104,698	111,781	50,473	3,825	18,778	15,061	(1,761)	302,855
Operating expenses	(30,546)	(39,906)	(9,063)	(1,641)	(17,973)	(5,035)	1,807	(102,357)
Impairment losses on assets	(37,801)	(7,511)	(5,253)	3	(76)	(2,307)	–	(52,945)
Operating profit	36,351	64,364	36,157	2,187	729	7,719	46	147,553
Share of results of associates and joint ventures	–	–	–	192	–	584	(27)	749
Profit before income tax	36,351	64,364	36,157	2,379	729	8,303	19	148,302
Income tax expense								(29,755)
Profit for the period								118,547
Segment assets	9,928,583	5,979,766	9,530,867	109,632	219,477	626,253	(112,803)	26,281,775
Investments in associates and joint ventures	–	–	–	5,746	–	29,868	(62)	35,552
Total assets	9,928,583	5,979,766	9,530,867	115,378	219,477	656,121	(112,865)	26,317,327
Segment liabilities	11,902,606	7,951,504	3,770,418	81,272	200,439	293,495	(112,755)	24,086,979
Other segment items:								
Inter-segment net interest income/(expense)	7,228	25,249	(32,382)	120	5	(220)	–	–
Inter-segment net fee and commission income/(expense)	316	1,007	25	(368)	(944)	194	(230)	–
Capital expenditure	912	1,041	48	57	75	9,000	–	11,133
Depreciation and amortisation	4,583	5,483	1,321	205	128	2,981	(397)	14,304
Credit commitments	3,474,374	1,279,332	–	–	–	–	–	4,753,706

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

31 Segment reporting (Continued)

As at 31 December 2020 and for the six month period ended 30 June 2020

	Corporate banking	Personal banking	Treasury operations	Investment banking	Insurance	Other	Eliminations	Total
Interest income	173,872	145,353	98,407	1,078	1,671	1,974	(37,907)	384,448
Interest expense	(81,647)	(55,434)	(75,926)	(266)	(42)	(3,796)	38,076	(179,035)
Net interest income/(expense)	92,225	89,919	22,481	812	1,629	(1,822)	169	205,413
Fee and commission income	19,269	19,121	7,773	2,428	1	1,040	(1,646)	47,986
Fee and commission expense	(637)	(2,819)	(1,312)	(666)	(2,110)	(83)	1,465	(6,162)
Net fee and commission income/(expense)	18,632	16,302	6,461	1,762	(2,109)	957	(181)	41,824
Net trading gains	1,205	526	(1,756)	(83)	414	1,995	(128)	2,173
Net gains on transfers of financial assets	1,051	41	6,407	1	120	3	–	7,623
Other operating income	417	4,679	646	186	14,917	10,045	(940)	29,950
Operating income	113,530	111,467	34,239	2,678	14,971	11,178	(1,080)	286,983
Operating expenses	(27,934)	(35,631)	(8,327)	(1,198)	(14,130)	(4,816)	1,090	(90,946)
Impairment losses on assets	(43,591)	(15,683)	(6,210)	(15)	(134)	(896)	45	(66,484)
Operating profit	42,005	60,153	19,702	1,465	707	5,466	55	129,553
Share of results of associates and joint ventures	–	–	–	210	(16)	(101)	(30)	63
Profit before income tax	42,005	60,153	19,702	1,675	691	5,365	25	129,616
Income tax expense								(21,804)
Profit for the period								107,812
Segment assets	9,251,427	5,641,051	8,684,296	99,425	204,290	593,454	(104,792)	24,369,151
Investments in associates and joint ventures	–	–	–	5,585	–	27,989	(66)	33,508
Total assets	9,251,427	5,641,051	8,684,296	105,010	204,290	621,443	(104,858)	24,402,659
Segment liabilities	10,376,544	7,461,553	3,915,554	72,597	185,310	332,963	(104,699)	22,239,822
Other segment items:								
Inter-segment net interest income/(expense)	10,100	26,719	(36,501)	148	8	(643)	169	–
Inter-segment net fee and commission income/(expense)	436	1,029	24	(253)	(1,197)	142	(181)	–
Capital expenditure	668	808	36	57	49	17,594	–	19,212
Depreciation and amortisation	4,030	4,960	1,237	192	141	2,807	231	13,598
Credit commitments	3,242,275	1,249,398	–	–	–	–	–	4,491,673

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

32 Transfers of financial assets

The Group enters into transactions in the normal course of business by which it transfers recognised financial assets to third parties or to special purpose entities. In some cases where these transferred financial assets are qualified for derecognition, the transfers may give rise to full or partial derecognition of the financial assets concerned. In other cases where the transferred assets are not qualified for derecognition as the Group has retained substantially all the risks and rewards of these assets, the Group continued to recognise the transferred assets.

Repurchase agreements

Transferred financial assets that do not qualify for derecognition mainly include debt securities held by counterparties as collateral under repurchase agreements. The counterparties are allowed to sell or re-pledge those securities in the absence of default by the Group, but have an obligation to return the securities upon maturity of the contract. If the value of securities increases or decreases, the Group may in certain circumstances require counterparties or be required by counterparties to pay additional cash collateral. The Group has determined that the Group retains substantially all the risks and rewards of these securities and therefore has not derecognised them. In addition, the Group recognises a financial liability for cash received.

The following table analyses the carrying amount of the above-mentioned financial assets transferred to third parties that were not qualified for derecognition and their associated financial liabilities:

	As at 30 June 2021		As at 31 December 2020	
	Carrying amount of transferred assets	Carrying amount of associated liabilities	Carrying amount of transferred assets	Carrying amount of associated liabilities
Repurchase agreements	**32,862**	**32,849**	13,248	13,550

32 Transfers of financial assets (Continued)

Credit asset transfers

The Group enters into credit asset transfers in the normal course of business during which it transfers credit assets to special purpose entities which in turn issue asset-backed securities or fund shares to investors. The Group may acquire certain of these asset-backed securities and fund shares at the subordinated tranche level, and accordingly, may retain parts of the risks and rewards of the transferred credit assets. The Group would determine whether or not to derecognise the associated credit assets by evaluating the extent to which it retains the risks and rewards of the assets.

With respect to the credit assets that were securitised and qualified for derecognition, the Group derecognised the transferred credit assets in their entirety. The corresponding total carrying amount of asset-backed securities held by the Group in the securitisation transactions was RMB638 million as at 30 June 2021 (31 December 2020: RMB760 million), which also approximates the Group's maximum exposure to loss.

For those in which the Group has neither transferred nor retained substantially all the risks and rewards of the transferred credit assets, and retained control of the credit assets, the transferred credit assets are recognised in the statement of financial position to the extent of the Group's continuing involvement. For the six month period ended 30 June 2021, the corresponding total carrying amount of asset-backed securities held by the Group in the securitisation transactions was RMB33,434 million (six month period ended 30 June 2020: Nil) and the carrying amount of assets that the Group continues to recognise in the statement of financial position was RMB19,590 million as at 30 June 2021 (31 December 2020: RMB15,244 million).

33 Interests in the structured entities

The Group is principally involved with structured entities through financial investments, asset management and credit asset transfers. These structured entities generally finance the purchase of assets by issuing securities or by other means. The Group determines whether or not to consolidate these structured entities depending on whether the Group has control over them.

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

33 Interests in the structured entities (Continued)

33.1 Interests in the unconsolidated structured entities

The interests held by the Group in the unconsolidated structured entities are mainly set out below:

Structured entities sponsored by the Group

In conducting the asset management business in Chinese mainland, the Group established various structured entities to provide customers with specified investment opportunities within well-defined objectives, including wealth management products, publicly offered funds and asset management plans. The Group earned management fee, commission and custodian fee in return.

As at 30 June 2021, the balance of the above unconsolidated wealth management products sponsored by the Group amounted to RMB1,413,726 million (31 December 2020: RMB1,388,904 million). The balance of unconsolidated publicly offered funds and asset management plans sponsored by the Group amounted to RMB489,068 million (31 December 2020: RMB486,880 million).

For the six month period ended 30 June 2021, the above-mentioned commission, custodian fee and management fee earned by the Group amounted to RMB5,644 million (six month period ended 30 June 2020: RMB3,778 million).

As at 30 June 2021, the balance of interest and commission receivable held by the Group in the above-mentioned structured entities was not material. For the purpose of asset-liability management, wealth management products may require short-term financing from the Group and other banks. The Group is not contractually obliged to provide financing. After internal risk assessment, the Group may enter into repurchase and placement transactions with these wealth management products in accordance with market principles. For the six month period ended 30 June 2021, the maximum balance of such financing provided by the Group to the unconsolidated wealth management products was RMB52,516 million (six month period ended 30 June 2020: RMB132,205 million). Such financing provided by the Group was included in "Placements with and loans to banks and other financial institutions". As at 30 June 2021, the balance of the above transactions was RMB52,516 million (31 December 2020: RMB18,580 million). The maximum exposure to loss of those placements approximated to their carrying amount.

The total carrying amount as at the transfer date of credit assets transferred by the Group into unconsolidated structured entities was RMB182 million during the six month period ended 30 June 2021 (six month period ended 30 June 2020: Nil). For the description of asset-backed securities issued by the above structured entities and held by the Group, refer to Note III.32.

33 Interests in the structured entities (Continued)

33.1 Interests in the unconsolidated structured entities (Continued)

Structured entities sponsored by other financial institutions

The interests held by the Group in the structured entities sponsored by other financial institutions through direct investments are set out below:

Structured entity type	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Financial assets at amortised cost	Total	Maximum exposure to loss
As at 30 June 2021					
Fund investments	**63,895**	**–**	**–**	**63,895**	**63,895**
Investment trusts and asset management plans	**3,065**	**–**	**8,766**	**11,831**	**11,831**
Asset-backed securitisations	**6,358**	**33,557**	**77,642**	**117,557**	**117,557**
As at 31 December 2020					
Fund investments	57,099	–	–	57,099	57,099
Investment trusts and asset management plans	2,914	–	8,407	11,321	11,321
Asset-backed securitisations	5,538	40,633	58,195	104,366	104,366

33.2 Consolidated structured entities

The Group's consolidated structured entities mainly consist of open-end funds, private equity funds, trusts for asset-backed securities, and special-purpose companies. The Group controls these entities because the Group has power over, is exposed to, or has rights to variable returns from its involvement with these entities and has the ability to use its power over these entities to affect the amount of the Group's returns. Except for providing financial guarantees for the companies established solely for financing purposes, the Group does not provide financial or other support to the other consolidated structured entities.

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

34 Comparative figures

Certain comparative figures have been adjusted to conform with presentation and disclosure in the current period. The Group has recognised income and expenses arising from credit card instalment business as interest income in the current period, therefore the comparative figures were restated accordingly.

35 Events after the financial reporting date

The Bank would invest to establish a wholly-owned tier-1 subsidiary, Bank of China (Macau) Limited (the "Macau Subsidiary"), with a total capital contribution of MOP13 billion. As of the release date of this interim report, the Bank has received the approval of the CBIRC and the permission of China Macau SAR Government for the establishment of Macau Subsidiary.

IV FINANCIAL RISK MANAGEMENT

1 Credit risk

1.1 Loans and advances

(1) Concentrations of risk for loans and advances to customers

(i) Analysis of loans and advances to customers by geographical area

Group

	As at 30 June 2021		As at 31 December 2020	
	Amount	**% of total**	**Amount**	**% of total**
Chinese mainland	**12,407,949**	**80.67%**	11,501,791	81.09%
Hong Kong (China), Macao (China), Taiwan (China)	**1,931,922**	**12.56%**	1,697,934	11.97%
Other countries and regions	**1,041,617**	**6.77%**	983,660	6.94%
Total	**15,381,488**	**100.00%**	14,183,385	100.00%

Chinese mainland

	As at 30 June 2021		As at 31 December 2020	
	Amount	**% of total**	**Amount**	**% of total**
Northern China	**1,798,865**	**14.50%**	1,695,932	14.74%
Northeastern China	**529,119**	**4.26%**	502,186	4.37%
Eastern China	**4,880,028**	**39.33%**	4,505,204	39.17%
Central and Southern China	**3,531,244**	**28.46%**	3,266,619	28.40%
Western China	**1,668,693**	**13.45%**	1,531,850	13.32%
Total	**12,407,949**	**100.00%**	11,501,791	100.00%

(ii) Analysis of loans and advances to customers by customer type

	Chinese mainland	Hong Kong (China), Macao (China), Taiwan (China)	Other countries and regions	Total
As at 30 June 2021				
Corporate loans and advances				
— Trade bills	**923,672**	**117,585**	**186,201**	**1,227,458**
— Other	**6,232,383**	**1,208,159**	**794,939**	**8,235,481**
Personal loans	**5,251,894**	**606,178**	**60,477**	**5,918,549**
Total	**12,407,949**	**1,931,922**	**1,041,617**	**15,381,488**
As at 31 December 2020				
Corporate loans and advances				
— Trade bills	970,413	83,276	101,869	1,155,558
— Other	5,551,519	1,071,321	821,692	7,444,532
Personal loans	4,979,859	543,337	60,099	5,583,295
Total	11,501,791	1,697,934	983,660	14,183,385

(Amounts in millions of Renminbi, unless otherwise stated)

IV FINANCIAL RISK MANAGEMENT (Continued)

1 Credit risk (Continued)

1.1 Loans and advances (Continued)

(1) Concentrations of risk for loans and advances to customers (Continued)

(iii) Analysis of loans and advances to customers by industry

Group

	As at 30 June 2021		As at 31 December 2020	
	Amount	**% of total**	**Amount**	**% of total**
Corporate loans and advances				
Commerce and services	**1,992,248**	**12.95%**	1,764,213	12.44%
Manufacturing	**1,855,136**	**12.06%**	1,692,261	11.93%
Transportation, storage and postal services	**1,653,269**	**10.75%**	1,493,828	10.53%
Real estate	**1,214,090**	**7.89%**	1,137,469	8.02%
Financial services	**794,154**	**5.16%**	646,979	4.56%
Production and supply of electricity, heating, gas and water	**778,023**	**5.06%**	726,824	5.13%
Construction	**315,224**	**2.05%**	268,676	1.89%
Water, environment and public utility management	**277,614**	**1.80%**	250,551	1.77%
Mining	**273,420**	**1.78%**	282,394	1.99%
Public utilities	**164,750**	**1.07%**	161,402	1.14%
Other	**145,011**	**0.95%**	175,493	1.24%
Subtotal	**9,462,939**	**61.52%**	8,600,090	60.64%
Personal loans				
Mortgages	**4,605,752**	**29.94%**	4,418,761	31.15%
Credit cards	**502,559**	**3.27%**	498,435	3.51%
Other	**810,238**	**5.27%**	666,099	4.70%
Subtotal	**5,918,549**	**38.48%**	5,583,295	39.36%
Total	**15,381,488**	**100.00%**	14,183,385	100.00%

IV FINANCIAL RISK MANAGEMENT (Continued)

1 Credit risk (Continued)

1.1 Loans and advances (Continued)

(1) Concentrations of risk for loans and advances to customers (Continued)

(iii) Analysis of loans and advances to customers by industry (Continued)

Chinese mainland

	As at 30 June 2021		As at 31 December 2020	
	Amount	% of total	Amount	% of total
Corporate loans and advances				
Commerce and services	**1,524,022**	**12.28%**	1,395,690	12.13%
Manufacturing	**1,480,693**	**11.93%**	1,329,778	11.56%
Transportation, storage and postal services	**1,478,714**	**11.92%**	1,313,457	11.42%
Real estate	**681,481**	**5.49%**	639,777	5.56%
Financial services	**467,217**	**3.77%**	487,488	4.24%
Production and supply of electricity, heating, gas and water	**607,479**	**4.90%**	554,626	4.82%
Construction	**281,933**	**2.27%**	218,541	1.90%
Water, environment and public utility management	**271,279**	**2.19%**	243,268	2.12%
Mining	**166,232**	**1.34%**	163,193	1.42%
Public utilities	**151,715**	**1.22%**	136,444	1.19%
Other	**45,290**	**0.36%**	39,670	0.34%
Subtotal	**7,156,055**	**57.67%**	6,521,932	56.70%
Personal loans				
Mortgages	**4,169,622**	**33.60%**	3,991,540	34.71%
Credit cards	**492,824**	**3.97%**	488,086	4.24%
Other	**589,448**	**4.76%**	500,233	4.35%
Subtotal	**5,251,894**	**42.33%**	4,979,859	43.30%
Total	**12,407,949**	**100.00%**	11,501,791	100.00%

(Amounts in millions of Renminbi, unless otherwise stated)

IV FINANCIAL RISK MANAGEMENT (Continued)

1 Credit risk (Continued)

1.1 Loans and advances (Continued)

(1) Concentrations of risk for loans and advances to customers (Continued)

(iv) Analysis of loans and advances to customers by collateral type

Group

	As at 30 June 2021		As at 31 December 2020	
	Amount	% of total	Amount	% of total
Unsecured loans	**4,986,704**	**32.42%**	4,533,495	31.96%
Guaranteed loans	**1,825,301**	**11.87%**	1,737,379	12.25%
Collateralised and other secured loans	**8,569,483**	**55.71%**	7,912,511	55.79%
Total	**15,381,488**	**100.00%**	14,183,385	100.00%

Chinese mainland

	As at 30 June 2021		As at 31 December 2020	
	Amount	% of total	Amount	% of total
Unsecured loans	**3,629,092**	**29.25%**	3,311,387	28.79%
Guaranteed loans	**1,409,912**	**11.36%**	1,379,925	12.00%
Collateralised and other secured loans	**7,368,945**	**59.39%**	6,810,479	59.21%
Total	**12,407,949**	**100.00%**	11,501,791	100.00%

(2) Analysis of impaired loans and advances to customers

(i) Impaired loans and advances by geographical area

Group

	As at 30 June 2021			As at 31 December 2020		
	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio
Chinese mainland	**179,082**	**89.39%**	**1.44%**	189,985	91.66%	1.65%
Hong Kong (China), Macao (China), Taiwan (China)	**5,895**	**2.94%**	**0.31%**	4,674	2.25%	0.28%
Other countries and regions	**15,371**	**7.67%**	**1.48%**	12,614	6.09%	1.28%
Total	**200,348**	**100.00%**	**1.30%**	207,273	100.00%	1.46%

IV FINANCIAL RISK MANAGEMENT (Continued)

1 Credit risk (Continued)

1.1 Loans and advances (Continued)

(2) Analysis of impaired loans and advances to customers (Continued)

(i) Impaired loans and advances by geographical area (Continued)

Chinese mainland

	As at 30 June 2021			As at 31 December 2020		
	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio
Northern China	**21,941**	**12.25%**	**1.22%**	27,699	14.58%	1.63%
Northeastern China	**9,804**	**5.47%**	**1.85%**	15,229	8.02%	3.03%
Eastern China	**57,891**	**32.33%**	**1.19%**	52,199	27.47%	1.16%
Central and Southern China	**76,382**	**42.66%**	**2.16%**	81,201	42.74%	2.49%
Western China	**13,064**	**7.29%**	**0.78%**	13,657	7.19%	0.89%
Total	**179,082**	**100.00%**	**1.44%**	189,985	100.00%	1.65%

(ii) Impaired loans and advances by customer type

Group

	As at 30 June 2021			As at 31 December 2020		
	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio
Corporate loans and advances	**169,116**	**84.41%**	**1.79%**	174,012	83.95%	2.02%
Personal loans	**31,232**	**15.59%**	**0.53%**	33,261	16.05%	0.60%
Total	**200,348**	**100.00%**	**1.30%**	207,273	100.00%	1.46%

Chinese mainland

	As at 30 June 2021			As at 31 December 2020		
	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio
Corporate loans and advances	**148,791**	**83.09%**	**2.08%**	157,767	83.04%	2.42%
Personal loans	**30,291**	**16.91%**	**0.58%**	32,218	16.96%	0.65%
Total	**179,082**	**100.00%**	**1.44%**	189,985	100.00%	1.65%

(Amounts in millions of Renminbi, unless otherwise stated)

IV FINANCIAL RISK MANAGEMENT (Continued)

1 Credit risk (Continued)

1.1 Loans and advances (Continued)

(2) Analysis of impaired loans and advances to customers (Continued)

(iii) Impaired loans and advances by geographical area and industry

	As at 30 June 2021			As at 31 December 2020		
	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio
Chinese mainland						
Corporate loans and advances						
Commerce and services	**24,236**	**12.10%**	**1.59%**	42,010	20.27%	3.01%
Manufacturing	**62,123**	**31.00%**	**4.20%**	56,696	27.35%	4.26%
Transportation, storage and postal services	**13,249**	**6.61%**	**0.90%**	14,276	6.89%	1.09%
Real estate	**33,491**	**16.72%**	**4.91%**	29,952	14.45%	4.68%
Financial services	**632**	**0.32%**	**0.14%**	42	0.02%	0.01%
Production and supply of electricity, heating, gas and water	**2,461**	**1.23%**	**0.41%**	2,374	1.14%	0.43%
Construction	**3,873**	**1.93%**	**1.37%**	3,806	1.84%	1.74%
Water, environment and public utility management	**2,548**	**1.27%**	**0.94%**	2,319	1.12%	0.95%
Mining	**4,058**	**2.03%**	**2.44%**	4,537	2.19%	2.78%
Public utilities	**1,379**	**0.69%**	**0.91%**	894	0.43%	0.66%
Other	**741**	**0.37%**	**1.64%**	861	0.42%	2.17%
Subtotal	**148,791**	**74.27%**	**2.08%**	157,767	76.12%	2.42%
Personal loans						
Mortgages	**12,938**	**6.46%**	**0.31%**	12,680	6.12%	0.32%
Credit cards	**11,309**	**5.64%**	**2.29%**	12,199	5.88%	2.50%
Other	**6,044**	**3.02%**	**1.03%**	7,339	3.54%	1.47%
Subtotal	**30,291**	**15.12%**	**0.58%**	32,218	15.54%	0.65%
Total for Chinese mainland	**179,082**	**89.39%**	**1.44%**	189,985	91.66%	1.65%
Hong Kong (China), Macao (China), Taiwan (China) and other countries and regions	**21,266**	**10.61%**	**0.72%**	17,288	8.34%	0.64%
Total	**200,348**	**100.00%**	**1.30%**	207,273	100.00%	1.46%

1 Credit risk (Continued)

1.1 Loans and advances (Continued)

(2) Analysis of impaired loans and advances to customers (Continued)

(iv) Impaired loans and advances and related allowances by geographical area

	Impaired loans	Allowance for impairment losses	Net
As at 30 June 2021			
Chinese mainland	**179,082**	**(153,497)**	**25,585**
Hong Kong (China), Macao (China), Taiwan (China)	**5,895**	**(3,550)**	**2,345**
Other countries and regions	**15,371**	**(8,569)**	**6,802**
Total	**200,348**	**(165,616)**	**34,732**
As at 31 December 2020			
Chinese mainland	189,985	(151,489)	38,496
Hong Kong (China), Macao (China), Taiwan (China)	4,674	(2,463)	2,211
Other countries and regions	12,614	(8,943)	3,671
Total	207,273	(162,895)	44,378

(3) Loans and advances rescheduled

Rescheduling is a voluntary or, to a limited extent, court-supervised procedure, through which the Group and a borrower and/or its guarantor, if any, rescheduled credit terms as a result of deterioration in the borrower's financial condition or of the borrower's inability to make payments when due. The Group reschedules a non-performing loan only if the borrower has good prospects. In addition, when approving the rescheduling of loans, the Group requires additional guarantees, pledges and/or collateral depending on the circumstances, or the assumption of the loan by a borrower with better repayment ability.

Rescheduled loans are subject to a surveillance period of six months. During the surveillance period, rescheduled loans remain as non-performing loans and the Group monitors the borrower's business operations and loan repayment patterns. After the surveillance period, rescheduled loans may be upgraded to "Special-mention" upon review if certain criterion are met. If the rescheduled loans fall overdue or if the borrowers are unable to demonstrate their repayment ability, these loans will be reclassified to "Doubtful" or below. All rescheduled loans within the surveillance period were determined to be impaired as at 30 June 2021 and 31 December 2020.

As at 30 June 2021 and 31 December 2020, within impaired loans and advances, rescheduled loans and advances that were overdue for 90 days or less were insignificant.

(Amounts in millions of Renminbi, unless otherwise stated)

IV FINANCIAL RISK MANAGEMENT (Continued)

1 Credit risk (Continued)

1.1 Loans and advances (Continued)

(4) Overdue loans and advances to customers

Analysis of overdue loans and advances by geographical area:

	As at 30 June 2021	As at 31 December 2020
Chinese mainland	**162,489**	160,265
Hong Kong (China), Macao (China), Taiwan (China)	**7,578**	6,850
Other countries and regions	**8,781**	12,269
Subtotal	**178,848**	179,384
Percentage	**1.16%**	1.26%
Less: total loans and advances to customers which have been overdue for less than 3 months	**(78,996)**	(54,342)
Total loans and advances to customers which have been overdue for more than 3 months	**99,852**	125,042

(5) Loans and advances exposure by stage distribution

Loans and advances to customers by five-category loan classification and stage distribution are analysed as follows:

	12-month ECLs	Lifetime ECLs		
	Stage 1	Stage 2	Stage 3	Total
As at 30 June 2021				
Pass	**14,865,529**	**76,718**	**–**	**14,942,247**
Special-mention	**–**	**234,728**	**–**	**234,728**
Substandard	**–**	**–**	**90,403**	**90,403**
Doubtful	**–**	**–**	**28,086**	**28,086**
Loss	**–**	**–**	**81,859**	**81,859**
Total	**14,865,529**	**311,446**	**200,348**	**15,377,323**
As at 31 December 2020				
Pass	13,642,318	66,181	–	13,708,499
Special-mention	–	263,952	–	263,952
Substandard	–	–	125,118	125,118
Doubtful	–	–	33,823	33,823
Loss	–	–	48,332	48,332
Total	13,642,318	330,133	207,273	14,179,724

As at 30 June 2021 and 31 December 2020, loans and advances by five-category loan classification and stage distribution did not include loans and advances to customers measured at fair value through profit or loss.

IV FINANCIAL RISK MANAGEMENT (Continued)

1 Credit risk (Continued)

1.2 Debt securities

The Group adopted a credit rating approach to manage the credit risk of the debt securities by referring to both internal and external credit rating. The carrying amounts (excluding accrued interest) of the debt investments analysed by external credit ratings at the financial reporting date are as follows:

	Unrated	A to AAA	Lower than A	Total
As at 30 June 2021				
Issuers in Chinese mainland				
— Government	**3,799**	**3,047,966**	**–**	**3,051,765**
— Public sectors and quasi-governments	**146,241**	**–**	**–**	**146,241**
— Policy banks	**513**	**486,540**	**–**	**487,053**
— Financial institutions	**40,569**	**270,025**	**141,671**	**452,265**
— Corporate	**84,368**	**104,459**	**34,705**	**223,532**
— China Orient	**152,433**	**–**	**–**	**152,433**
Subtotal	**427,923**	**3,908,990**	**176,376**	**4,513,289**
Issuers in Hong Kong (China), Macao (China), Taiwan (China) and other countries and regions				
— Governments	**3,189**	**581,954**	**15,762**	**600,905**
— Public sectors and quasi-governments	**1,641**	**103,332**	**–**	**104,973**
— Financial institutions	**6,900**	**134,990**	**39,887**	**181,777**
— Corporate	**16,279**	**96,099**	**38,033**	**150,411**
Subtotal	**28,009**	**916,375**	**93,682**	**1,038,066**
Total	**455,932**	**4,825,365**	**270,058**	**5,551,355**
As at 31 December 2020				
Issuers in Chinese mainland				
— Government	6,461	3,026,650	–	3,033,111
— Public sectors and quasi-governments	130,695	–	–	130,695
— Policy banks	149	446,888	–	447,037
— Financial institutions	31,229	269,487	123,956	424,672
— Corporate	67,834	109,443	39,474	216,751
— China Orient	152,433	–	–	152,433
Subtotal	388,801	3,852,468	163,430	4,404,699
Issuers in Hong Kong (China), Macao (China), Taiwan (China) and other countries and regions				
— Governments	36,393	503,881	16,338	556,612
— Public sectors and quasi-governments	34,077	31,748	–	65,825
— Financial institutions	10,015	127,643	34,449	172,107
— Corporate	13,453	89,307	38,716	141,476
Subtotal	93,938	752,579	89,503	936,020
Total	482,739	4,605,047	252,933	5,340,719

(Amounts in millions of Renminbi, unless otherwise stated)

IV FINANCIAL RISK MANAGEMENT (Continued)

1 Credit risk (Continued)

1.3 Measurement of expected credit losses ("ECLs")

The Group conducted an assessment of ECLs according to forward-looking information and used a number of models and assumptions in its measurement of ECLs. These models and assumptions relate to the future macroeconomic conditions and debtors creditworthiness (e.g., the likelihood of default by debtors and the corresponding losses). The Group's assessment of ECLs on 30 June 2021 considered the impact of changes in the current economic environment on the ECL model, including: the debtor's operation or financial status, and the extent of the impact of the COVID-19 pandemic, the Group has granted deferred repayment and interest payment arrangements to some debtors affected by the pandemic, but a deferred principal and interest payment arrangement was not intended to be a judgment basis for automatically triggering a significant increase in the debtor's credit risk; specific industry risks affected by the pandemic; forward-looking forecasts on performance of key macroeconomic indictors on economic development trends.

Based on the analysis of historical data, the Group identifies the key macroeconomic indicators that affect the credit risk and ECLs of various business types, such as gross domestic product ("GDP"), investment in fixed assets, producer price index, home price index, consumer price index.

The specific value of the core macroeconomic indicator used by the Group to evaluate ECLs as at 30 June 2021 was as follows:

Indicator	Number
YoY Growth Rate of China's GDP in 2021	**8.80%**

The Group updates the forecast values of key macroeconomic indicators and determines the impact of these economic indicators on the probability of default and the loss given default by conducting regression analysis. Except for the changes, the judgments, assumptions and estimates used in the ECL measurement are consistent with those in 2020.

As at 30 June 2021, the ECLs reflected the Group's credit risk and the expectations for macroeconomic development of management.

IV FINANCIAL RISK MANAGEMENT (Continued)

1 Credit risk (Continued)

1.4 Derivatives

The risk-weighted assets for counterparty credit risk ("CCR") of derivatives of the Group are calculated in accordance with the *Capital Rules for Commercial Banks (Provisional)* and the *Assets Measurement Rules for Counterparty Default Risks of Derivatives* and other relevant regulations under the advanced capital management approaches. For derivative transactions, risk-weighted assets for CCR include the risk-weighted assets for default risk, the risk-weighted assets for credit valuation adjustment ("CVA") and the risk-weighted assets for central counterparties ("CCPs").

The risk-weighted assets for CCR of derivatives are as follows:

	As at 30 June 2021	As at 31 December 2020
Risk-weighted assets for default risk		
Currency derivatives	**74,752**	76,313
Interest rate derivatives	**13,424**	16,082
Equity derivatives	**690**	844
Commodity derivatives and other	**21,113**	18,487
	109,979	111,726
Risk-weighted assets for CVA	**87,411**	110,319
Risk-weighted assets for CCPs	**3,765**	6,330
Total	**201,155**	228,375

1.5 Repossessed assets

The Group obtains assets by taking possession of collateral held as security. Detailed information of such repossessed assets of the Group is disclosed in Note III.20 (3).

2 Market risk

2.1 Market risk measurement techniques and limits

(1) Trading book

For the purpose of market risk management in the trading book, the Group monitors trading book Value at Risk (VaR) limits, stress testing results and exposure limits and tracks each trading desk and dealer's observance of each limit on a daily basis.

VaR is used to estimate the potential largest loss arising from adverse market movements in a specific holding period and within a certain confidence level.

(Amounts in millions of Renminbi, unless otherwise stated)

IV FINANCIAL RISK MANAGEMENT (Continued)

2 Market risk (Continued)

2.1 Market risk measurement techniques and limits (Continued)

(1) Trading book (Continued)

VaR is performed separately by the Bank and its major subsidiaries that are exposed to market risk, Bank of China Hong Kong (Holdings) Limited ("BOCHK (Holdings)") and BOC International Holdings Limited ("BOCI"). The Bank, BOCHK (Holdings) and BOCI used a 99% level of confidence (therefore, statistical probability of 1% that actual losses could be greater than the VaR estimate) and a historical simulation model to calculate the VaR estimate. The holding period of the VaR calculations is one day. To enhance the Group's market risk management, the Group has established the market risk data mart, which enabled a group level trading book VaR calculation on a daily basis.

The accuracy and reliability of the VaR model is verified by daily back-testing of the VaR results in the trading book. The back-testing results are regularly reported to senior management.

The Group utilises stress testing as an effective supplement to the trading book VaR analysis. Stress testing scenarios are performed based on the characteristics of trading transactions to simulate and estimate losses in adverse and exceptional market conditions. To address changes in the financial markets, the Group enhances its market risk identification capabilities by continuously modifying and improving the trading book stress testing scenarios and measurement methodologies in order to capture the potential impact to transaction market prices stemming from changes in market prices and volatility.

The table below shows the VaR of the trading book by type of risk for the six month periods ended 30 June 2021 and 30 June 2020:

Unit: USD million

	Six month period ended 30 June					
	2021			2020		
	Average	High	Low	Average	High	Low
The Bank's trading VaR						
Interest rate risk	**15.10**	**18.03**	**11.24**	14.05	17.87	9.40
Foreign exchange risk	**28.13**	**41.51**	**9.75**	24.01	35.33	11.83
Volatility risk	**5.31**	**11.41**	**1.31**	0.75	1.95	0.18
Commodity risk	**5.25**	**10.77**	**0.82**	6.63	13.76	3.04
Total of the Bank's trading VaR	**35.45**	**48.83**	**19.49**	27.74	38.68	16.18

The reporting of risk in relation to bullion is included in foreign exchange risk above.

IV FINANCIAL RISK MANAGEMENT (Continued)

2 Market risk (Continued)

2.1 Market risk measurement techniques and limits (Continued)

(1) Trading book (Continued)

Unit: USD million

	Six month period ended 30 June					
	2021			2020		
	Average	High	Low	Average	High	Low
BOCHK (Holdings)'s trading VaR						
Interest rate risk	**1.78**	**3.40**	**0.80**	3.19	4.58	1.71
Foreign exchange risk	**3.18**	**5.29**	**1.77**	1.91	3.78	0.84
Equity risk	**0.13**	**0.29**	**0.05**	0.10	0.38	0.03
Commodity risk	**1.18**	**2.93**	**–**	0.08	0.32	–
Total BOCHK (Holdings)'s trading VaR	**3.65**	**6.15**	**2.44**	3.95	5.69	2.25
BOCI's trading VaR (i)						
Equity derivatives unit	**0.78**	**2.19**	**0.19**	0.87	1.81	0.34
Fixed income unit	**0.81**	**1.33**	**0.47**	1.08	1.67	0.41
Global commodity unit	**0.21**	**0.50**	**0.17**	0.19	0.29	0.15
Total BOCI's trading VaR	**1.81**	**3.58**	**0.97**	2.15	3.04	1.57

(i) BOCI monitors its trading VaR for equity derivatives unit, fixed income unit and global commodity unit separately, which include equity risk, interest rate risk, foreign exchange risk and commodity risk.

VaR for each risk factor is the independently derived largest potential loss in a specific holding period and within a certain confidence level due to fluctuations solely in that risk factor. The individual VaRs were not added up to the total VaR as there was a diversification effect due to correlation amongst the risk factors.

(2) Banking book

Interest rate risk in the banking book ("IRRBB") refers to the risk of losses to a bank's economic value and to its overall earnings of banking book, arising from adverse movements in interest rates level or term structure. IRRBB mainly comes from repricing gaps between assets and liabilities in the banking book, and differences in changes in benchmarking interest rates for assets and liabilities. The Group assesses IRRBB primarily through an interest rate repricing gap analysis. The interest rate gap analysis is set out in Note IV.2.2 and also covers the trading book.

(Amounts in millions of Renminbi, unless otherwise stated)

IV FINANCIAL RISK MANAGEMENT (Continued)

2 Market risk (Continued)

2.2 GAP analysis

The tables below summarise the Group's exposure to interest rate risks, which include the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	As at 30 June 2021						
	Less than 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and due from banks and other financial institutions	478,002	49,841	127,146	4,654	–	65,268	724,911
Balances with central banks	1,982,958	4,173	403	644	–	266,519	2,254,697
Placements with and loans to banks and other financial institutions	825,340	123,304	351,500	67,123	–	4,394	1,371,661
Derivative financial assets	–	–	–	–	–	116,240	116,240
Loans and advances to customers, net	3,032,833	2,644,321	8,382,343	558,831	279,057	150,329	15,047,714
Financial investments							
— financial assets at fair value through profit or loss	18,869	35,283	84,491	40,731	156,590	174,619	510,583
— financial assets at fair value through other comprehensive income	164,295	252,536	333,964	930,935	446,039	47,213	2,174,982
— financial assets at amortised cost	85,395	220,646	277,535	1,355,968	1,158,430	37,981	3,135,955
Other	1,285	–	–	–	148	979,151	980,584
Total assets	6,588,977	3,330,104	9,557,382	2,958,886	2,040,264	1,841,714	26,317,327
Liabilities							
Due to banks and other financial institutions	1,272,554	202,936	617,040	7,876	–	259,935	2,360,341
Due to central banks	88,527	90,553	695,114	12,748	–	8,882	895,824
Placements from banks and other financial institutions	389,657	64,636	44,489	–	–	1,227	500,009
Derivative financial liabilities	–	–	–	–	–	121,560	121,560
Due to customers	10,539,569	1,367,866	2,775,087	3,061,473	163	483,613	18,227,771
Bonds issued	88,420	149,328	527,985	466,080	57,165	12,583	1,301,561
Other	21,568	15,441	2,990	13,687	9,949	616,278	679,913
Total liabilities	12,400,295	1,890,760	4,662,705	3,561,864	67,277	1,504,078	24,086,979
Total interest repricing gap	(5,811,318)	1,439,344	4,894,677	(602,978)	1,972,987	337,636	2,230,348

2 Market risk (Continued)

2.2 GAP analysis (Continued)

	As at 31 December 2020						
	Less than 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and due from banks and other financial institutions	470,557	92,375	152,489	3,117	–	84,607	803,145
Balances with central banks	1,883,236	2,990	489	651	–	189,474	2,076,840
Placements with and loans to banks and other financial institutions	405,802	167,138	278,759	82,515	–	5,106	939,320
Derivative financial assets	–	–	–	–	–	171,738	171,738
Loans and advances to customers, net	3,696,907	2,476,327	6,603,223	297,793	268,035	506,019	13,848,304
Financial investments							
— financial assets at fair value through profit or loss	10,968	48,105	76,626	42,983	169,896	155,971	504,549
— financial assets at fair value through other comprehensive income	176,317	249,957	253,926	925,422	461,527	40,641	2,107,790
— financial assets at amortised cost	229,352	71,072	336,105	1,283,662	1,019,905	38,682	2,978,778
Other	2,698	–	–	–	14,328	955,169	972,195
Total assets	6,875,837	3,107,964	7,701,617	2,636,143	1,933,691	2,147,407	24,402,659
Liabilities							
Due to banks and other financial institutions	1,150,797	250,707	192,966	5,518	–	317,015	1,917,003
Due to central banks	309,560	114,713	428,370	28,230	–	6,938	887,811
Placements from banks and other financial institutions	247,076	102,269	61,627	6	–	971	411,949
Derivative financial liabilities	–	–	–	–	–	212,052	212,052
Due to customers	9,697,626	1,333,837	2,582,012	2,817,528	1,698	446,470	16,879,171
Bonds issued	75,317	201,662	450,653	461,129	49,612	6,030	1,244,403
Other	28,026	17,655	5,385	8,566	22,808	604,993	687,433
Total liabilities	11,508,402	2,020,843	3,721,013	3,320,977	74,118	1,594,469	22,239,822
Total interest repricing gap	(4,632,565)	1,087,121	3,980,604	(684,834)	1,859,573	552,938	2,162,837

(Amounts in millions of Renminbi, unless otherwise stated)

IV FINANCIAL RISK MANAGEMENT (Continued)

2 Market risk (Continued)

2.3 Foreign currency risk

The tables below summarise the Group's exposure to foreign currency exchange rate risk as at 30 June 2021 and 31 December 2020. The Group's exposure to RMB is provided in the tables below for comparison purposes. Included in the tables are the carrying amounts of the assets and liabilities of the Group along with off-balance sheet positions and credit commitments in RMB equivalent, categorised by the original currencies. Derivative financial instruments are included in net off-balance sheet position using notional amounts.

	As at 30 June 2021							
	RMB	USD	HKD	EURO	JPY	GBP	Other	Total
Assets								
Cash and due from banks and other financial institutions	449,885	176,175	25,954	32,969	6,721	9,558	23,649	724,911
Balances with central banks	1,598,182	256,145	133,889	116,209	33,343	59,182	57,747	2,254,697
Placements with and loans to banks and other financial institutions	652,906	568,012	82,622	14,901	351	1,629	51,240	1,371,661
Derivative financial assets	60,771	31,867	3,251	1,238	1,475	7,206	10,432	116,240
Loans and advances to customers, net	11,969,865	1,230,294	1,193,139	234,181	9,433	70,435	340,367	15,047,714
Financial investments								
— financial assets at fair value through profit or loss	372,213	52,578	78,135	6,771	830	14	42	510,583
— financial assets at fair value through other comprehensive income	1,294,442	442,500	182,976	29,221	137,024	4,011	84,808	2,174,982
— financial assets at amortised cost	2,823,342	256,847	3,749	9,250	5,591	3,846	33,330	3,135,955
Other	321,633	197,815	223,658	3,961	1,453	3,429	228,635	980,584
Total assets	19,543,239	3,212,233	1,927,373	448,701	196,221	159,310	830,250	26,317,327
Liabilities								
Due to banks and other financial institutions	1,470,478	532,080	44,892	55,714	13,597	10,856	232,724	2,360,341
Due to central banks	829,935	40,511	5,236	14,205	–	90	5,847	895,824
Placements from banks and other financial institutions	198,083	261,015	7,757	22,194	6,536	2,105	2,319	500,009
Derivative financial liabilities	73,492	30,532	1,905	1,531	833	6,090	7,177	121,560
Due to customers	13,823,993	1,766,220	1,752,138	291,291	55,597	59,914	478,618	18,227,771
Bonds issued	1,042,498	211,377	3,877	30,474	1,753	259	11,323	1,301,561
Other	261,835	120,123	269,769	7,921	344	2,157	17,764	679,913
Total liabilities	17,700,314	2,961,858	2,085,574	423,330	78,660	81,471	755,772	24,086,979
Net on-balance sheet position	1,842,925	250,375	(158,201)	25,371	117,561	77,839	74,478	2,230,348
Net off-balance sheet position	(21,660)	(134,422)	389,904	(11,508)	(116,300)	(74,655)	(25,356)	6,003
Credit commitments	3,405,093	782,059	253,190	143,987	8,945	55,495	104,937	4,753,706

IV FINANCIAL RISK MANAGEMENT (Continued)

2 Market risk (Continued)

2.3 Foreign currency risk (Continued)

	As at 31 December 2020							
	RMB	USD	HKD	EURO	JPY	GBP	Other	Total
Assets								
Cash and due from banks and other financial institutions	548,932	132,751	20,782	61,642	7,101	4,215	27,722	803,145
Balances with central banks	1,500,346	316,938	61,418	81,789	30,084	44,252	42,013	2,076,840
Placements with and loans to banks and other financial institutions	555,349	298,944	22,861	18,663	478	940	42,085	939,320
Derivative financial assets	97,475	44,134	3,479	738	987	9,344	15,581	171,738
Loans and advances to customers, net	11,024,110	1,106,377	1,010,120	258,468	11,076	62,829	375,324	13,848,304
Financial investments								
— financial assets at fair value through profit or loss	363,018	51,870	82,795	6,476	316	23	51	504,549
— financial assets at fair value through other comprehensive income	1,280,223	449,963	127,357	31,950	130,392	2,851	85,054	2,107,790
— financial assets at amortised cost	2,723,069	199,575	2,370	9,628	6,065	3,993	34,078	2,978,778
Other	317,767	183,732	219,734	2,466	1,417	2,346	244,733	972,195
Total assets	18,410,289	2,784,284	1,550,916	471,820	187,916	130,793	866,641	24,402,659
Liabilities								
Due to banks and other financial institutions	1,035,286	539,174	43,097	43,770	14,301	10,988	230,387	1,917,003
Due to central banks	576,601	277,062	12,918	13,487	–	341	7,402	887,811
Placements from banks and other financial institutions	137,784	215,247	13,729	28,757	12,204	2,247	1,981	411,949
Derivative financial liabilities	139,398	46,493	4,474	947	874	9,720	10,146	212,052
Due to customers	13,003,027	1,651,454	1,318,279	306,229	50,656	72,230	477,296	16,879,171
Bonds issued	968,665	218,950	8,617	31,980	1,896	311	13,984	1,244,403
Other	293,844	105,317	267,904	3,207	300	1,109	15,752	687,433
Total liabilities	16,154,605	3,053,697	1,669,018	428,377	80,231	96,946	756,948	22,239,822
Net on-balance sheet position	2,255,684	(269,413)	(118,102)	43,443	107,685	33,847	109,693	2,162,837
Net off-balance sheet position	(541,681)	392,537	347,658	(31,366)	(107,293)	(32,709)	(50,662)	(23,516)
Credit commitments	3,160,861	761,848	255,166	142,505	10,679	52,715	107,899	4,491,673

(Amounts in millions of Renminbi, unless otherwise stated)

IV FINANCIAL RISK MANAGEMENT (Continued)

3 Liquidity risk

The tables below analyse the Group's assets and liabilities into relevant maturity groupings based on the remaining period from the financial reporting date to the contractual maturity date.

	As at 30 June 2021							
	Overdue/ Undated	On demand	Less than 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	Over 5 years	Total
Assets								
Cash and due from banks and other financial institutions	–	259,583	283,687	49,841	127,146	4,654	–	724,911
Balances with central banks	1,573,768	578,568	83,586	11,593	6,216	966	–	2,254,697
Placements with and loans to banks and other financial institutions	275	–	813,459	114,785	360,823	82,319	–	1,371,661
Derivative financial assets	–	11,280	21,483	24,671	27,285	24,438	7,083	116,240
Loans and advances to customers, net	41,616	274,435	632,946	816,003	3,271,736	4,213,613	5,797,365	15,047,714
Financial investments								
— financial assets at fair value through profit or loss	172,423	–	18,988	35,061	83,093	42,332	158,686	510,583
— financial assets at fair value through other comprehensive income	24,759	–	132,128	223,962	351,855	974,969	467,309	2,174,982
— financial assets at amortised cost	3,064	–	62,880	68,400	281,328	1,533,231	1,187,052	3,135,955
Other	365,707	444,794	33,719	10,210	21,907	72,766	31,481	980,584
Total assets	2,181,612	1,568,660	2,082,876	1,354,526	4,531,389	6,949,288	7,648,976	26,317,327
Liabilities								
Due to banks and other financial institutions	–	1,392,475	136,858	199,515	617,551	13,942	–	2,360,341
Due to central banks	–	42,544	34,842	90,975	703,369	24,094	–	895,824
Placements from banks and other financial institutions	–	–	388,131	64,477	44,692	2,553	156	500,009
Derivative financial liabilities	–	7,729	20,103	29,272	29,677	26,379	8,400	121,560
Due to customers	–	9,160,103	1,746,678	1,380,821	2,833,302	3,106,401	466	18,227,771
Bonds issued	–	–	66,718	119,946	552,951	504,448	57,498	1,301,561
Other	–	333,758	60,148	9,965	81,454	109,247	85,341	679,913
Total liabilities	–	10,936,609	2,453,478	1,894,971	4,862,996	3,787,064	151,861	24,086,979
Net liquidity gap	2,181,612	(9,367,949)	(370,602)	(540,445)	(331,607)	3,162,224	7,497,115	2,230,348

IV FINANCIAL RISK MANAGEMENT (Continued)

3 Liquidity risk (Continued)

	As at 31 December 2020							
	Overdue/ Undated	On demand	Less than 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	Over 5 years	Total
Assets								
Cash and due from banks and other financial institutions	21	286,447	265,996	93,556	154,008	3,117	–	803,145
Balances with central banks	1,452,254	549,551	39,355	5,709	28,669	1,302	–	2,076,840
Placements with and loans to banks and other financial institutions	377	–	397,698	154,029	286,481	100,735	–	939,320
Derivative financial assets	–	13,312	22,621	31,423	62,752	31,551	10,079	171,738
Loans and advances to customers, net	46,580	191,481	435,364	1,288,350	2,778,252	3,744,008	5,364,269	13,848,304
Financial investments								
— financial assets at fair value through profit or loss	154,836	–	10,521	47,105	77,423	44,679	169,985	504,549
— financial assets at fair value through other comprehensive income	23,481	–	137,987	217,198	284,963	973,389	470,772	2,107,790
— financial assets at amortised cost	2,805	–	50,431	80,052	358,189	1,443,948	1,043,353	2,978,778
Other	356,200	454,701	19,792	17,044	19,930	75,503	29,025	972,195
Total assets	2,036,554	1,495,492	1,379,765	1,934,466	4,050,667	6,418,232	7,087,483	24,402,659
Liabilities								
Due to banks and other financial institutions	–	1,351,541	70,855	271,019	217,441	6,056	91	1,917,003
Due to central banks	–	216,844	79,518	117,114	434,833	39,502	–	887,811
Placements from banks and other financial institutions	–	–	244,199	100,330	62,324	4,940	156	411,949
Derivative financial liabilities	–	9,479	24,395	34,122	95,255	35,127	13,674	212,052
Due to customers	–	8,521,036	1,528,697	1,354,270	2,596,276	2,871,178	7,714	16,879,171
Bonds issued	–	–	67,004	186,305	461,388	470,415	59,291	1,244,403
Other	–	329,254	58,677	15,215	112,493	95,681	76,113	687,433
Total liabilities	–	10,428,154	2,073,345	2,078,375	3,980,010	3,522,899	157,039	22,239,822
Net liquidity gap	2,036,554	(8,932,662)	(693,580)	(143,909)	70,657	2,895,333	6,930,444	2,162,837

IV FINANCIAL RISK MANAGEMENT (Continued)

4 Fair value

4.1 Financial instruments measured at fair value

Financial instruments measured at fair value are classified into the following three levels:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities, including equity securities listed on exchanges or debt instruments issued by certain governments and certain exchange-traded derivative contracts.

- Level 2: Valuation technique for which all inputs that have a significant effect on the recorded fair value other than quoted prices included within Level 1 are observable for the asset or liability, either directly or indirectly. This level includes the majority of the over-the-counter ("OTC") derivative contracts, debt securities for which quotations are available from pricing service providers, discounted bills, etc.

- Level 3: Valuation technique using inputs which have a significant effect on the recorded fair value for the asset or liability are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

The Group's policy is to recognise transfers between levels of the fair value hierarchy as at the end of the reporting period in which they occur.

The Group uses valuation techniques or counterparty quotations to determine the fair value when it is unable to obtain open market quotation in active markets.

The main parameters used in valuation techniques include bond prices, interest rates, foreign exchange rates, equity and stock prices, volatilities, correlations, early repayment rates, counterparty credit spreads and others, which are all observable and obtainable from the open market.

For certain illiquid debt securities (mainly asset-backed securities), unlisted equity (private equity), OTC structured derivative transactions and unlisted funds held by the Group, management obtains valuation quotations from counterparties or uses valuation techniques to determine the fair value, including discounted cash flow analysis, net asset value and market comparison approach, etc. The fair value of these financial instruments may be based on unobservable inputs which may have a significant impact on the valuation of these financial instruments, and therefore, these assets and liabilities have been classified by the Group as Level 3. Management determines whether to make necessary adjustments to the fair value for the Group's Level 3 financial instruments by assessing the impact of changes in macro-economic factors, valuations by external valuation agencies and other inputs, including loss coverage ratios. The Group has established internal control procedures to control the Group's exposure to such financial instruments.

IV FINANCIAL RISK MANAGEMENT (Continued)

4 Fair value (Continued)

4.1 Financial instruments measured at fair value (Continued)

	As at 30 June 2021			
	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value				
Derivative financial assets	**3,304**	**112,936**	**–**	**116,240**
Loans and advances to customers at fair value	**–**	**306,943**	**–**	**306,943**
Financial assets at fair value through profit or loss				
— Debt securities	**15,567**	**296,074**	**24,956**	**336,597**
— Equity instruments	**8,990**	**12,908**	**66,142**	**88,040**
— Fund investments and other	**26,128**	**15,843**	**43,975**	**85,946**
Financial assets at fair value through other comprehensive income				
— Debt securities	**380,824**	**1,769,028**	**1,314**	**2,151,166**
— Equity instruments	**7,496**	**10,998**	**5,322**	**23,816**
Financial liabilities measured at fair value				
Due to and placements from banks and other financial institutions at fair value	**–**	**(1,952)**	**–**	**(1,952)**
Due to customers at fair value	**–**	**(30,199)**	**–**	**(30,199)**
Bonds issued at fair value	**–**	**(1,008)**	**–**	**(1,008)**
Short position in debt securities	**(1,203)**	**(11,503)**	**–**	**(12,706)**
Derivative financial liabilities	**(3,293)**	**(118,267)**	**–**	**(121,560)**

	As at 31 December 2020			
	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value				
Derivative financial assets	3,083	168,655	–	171,738
Loans and advances to customers at fair value	–	362,658	–	362,658
Financial assets at fair value through profit or loss				
— Debt securities	2,960	323,402	20,881	347,243
— Equity instruments	7,570	12,901	67,554	88,025
— Fund investments and other	20,961	5,362	42,958	69,281
Financial assets at fair value through other comprehensive income				
— Debt securities	296,234	1,788,755	1,373	2,086,362
— Equity instruments	7,005	9,692	4,731	21,428
Financial liabilities measured at fair value				
Due to and placements from banks and other financial institutions at fair value	–	(3,831)	–	(3,831)
Due to customers at fair value	–	(25,742)	–	(25,742)
Bonds issued at fair value	–	(6,162)	–	(6,162)
Short position in debt securities	(576)	(17,336)	–	(17,912)
Derivative financial liabilities	(3,539)	(208,513)	–	(212,052)

(Amounts in millions of Renminbi, unless otherwise stated)

IV FINANCIAL RISK MANAGEMENT (Continued)

4 Fair value (Continued)

4.1 Financial instruments measured at fair value (Continued)

Reconciliation of Level 3 items

		Financial assets at fair value through profit or loss			Financial assets at fair value through other comprehensive income	
	Derivative Financial assets	Debt Securities	Equity instruments	Fund investments and other	Debt securities	Equity instruments
As at 1 January 2021	–	20,881	67,554	42,958	1,373	4,731
Total gains and losses						
— profit/(loss)	–	491	(778)	2,215	–	–
— other comprehensive income	–	–	–	–	(44)	(154)
Sales	–	(355)	(2,794)	(5,403)	–	–
Purchases	–	3,947	3,259	4,222	–	768
Settlements	–	–	–	–	–	–
Transfers out of Level 3, net	–	–	(1,099)	–	–	–
Other changes	–	(8)	–	(17)	(15)	(23)
As at 30 June 2021	–	24,956	66,142	43,975	1,314	5,322
Total gains/(losses) for the period included in the income statement for assets/liabilities held as at 30 June 2021	–	491	(752)	1,984	–	–

4 Fair value (Continued)

4.1 Financial instruments measured at fair value (Continued)

Reconciliation of Level 3 items (Continued)

		Financial assets at fair value through profit or loss			Financial assets at fair value through other comprehensive income	
	Derivative Financial assets	Debt Securities	Equity Instruments	Fund investments and other	Debt securities	Equity instruments
As at 1 January 2020	10	15,948	71,716	38,936	1,676	5,275
Total gains and losses						
— profit/(loss)	122	(698)	754	(1,598)	–	–
— other comprehensive income	–	–	–	–	161	289
Sales	–	(1,534)	(6,515)	(3,301)	(359)	–
Purchases	–	6,074	14,292	9,043	–	750
Settlements	–	(1)	–	–	–	–
Transfers out of Level 3, net	(132)	–	(12,693)	–	–	(1,467)
Other changes	–	1,092	–	(122)	(105)	(116)
As at 31 December 2020	–	20,881	67,554	42,958	1,373	4,731
Total gains/(losses) for the period included in the income statement for assets/liabilities held as at 31 December 2020	–	(844)	756	(1,676)	–	–

Total gains or losses arising from financial instruments measured at fair value under level 3 for the six month period ended 30 June 2021 and the year ended 31 December 2020 were presented in "Net trading gains", "Net gains on transfers of financial assets" or "Impairment losses on assets" depending on the nature or classification of the related financial instruments.

Gains or losses on Level 3 financial assets and liabilities included in the income statement comprise:

	Six month period ended 30 June					
	2021			2020		
	Realised	Unrealised	Total	Realised	Unrealised	Total
Total gains for the period	**205**	**1,723**	**1,928**	1,638	3,518	5,156

There were no significant transfers of the financial assets and liabilities measured at fair value between Level 1 and Level 2 during the six month period ended 30 June 2021.

(Amounts in millions of Renminbi, unless otherwise stated)

IV FINANCIAL RISK MANAGEMENT (Continued)

4 Fair value (Continued)

4.2 Financial instruments not measured at fair value

Financial assets and liabilities not presented at fair value in the statement of financial position mainly represent "Balances with central banks", "Due from banks and other financial institutions", "Placements with and loans to banks and other financial institutions", "Due to central banks", "Due to banks and other financial institutions", "Loans and advances to customers measured at amortised cost", "Financial investments measured at amortised cost", "Placements from banks and other financial institutions at amortised cost", "Due to customers at amortised cost" and "Bonds issued at amortised cost".

The tables below summarise the carrying amounts and fair values of "Debt securities at amortised cost" and "Bonds issued" not presented at fair value at the financial reporting date.

	As at 30 June 2021		As at 31 December 2020	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Debt securities at amortised cost (1)	**3,127,189**	**3,158,860**	2,970,277	2,989,266
Financial liabilities				
Bonds issued (2)	**1,300,553**	**1,307,527**	1,238,241	1,144,440

(1) Debt securities at amortised cost

The Orient Bond and Special Purpose Treasury Bond held by the Bank are non-transferable. As there are no observable market prices or yields reflecting arm's length transactions of a comparable size and tenor, the fair value is determined based on the stated interest rate of the instruments.

Fair values of other debt securities are based on market prices or broker/dealer price quotations. Where this information is not available, the Bank will perform valuation by referring to prices from valuation service providers or on the basis of discounted cash flow models. Valuation parameters include market interest rates, expected future default rates, prepayment rates and market liquidity. The fair values of RMB bonds are mainly determined based on the valuation results provided by China Central Depository & Clearing Co., Ltd..

(2) Bonds issued

The aggregate fair values are calculated based on quoted market prices. For those bonds where quoted market prices are not available, a discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity.

IV FINANCIAL RISK MANAGEMENT (Continued)

4 Fair value (Continued)

4.2 Financial instruments not measured at fair value (Continued)

The tables below summarise the fair values of three levels of "Debt securities at amortised cost" (excluding the Orient Bond and Special Purpose Treasury Bond), and "Bonds issued" not presented at fair value at the financial reporting date.

	As at 30 June 2021			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Debt securities at amortised cost	**114,153**	**2,845,867**	**2,964**	**2,962,984**
Financial liabilities				
Bonds issued	**–**	**1,307,527**	**–**	**1,307,527**

	As at 31 December 2020			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Debt securities at amortised cost	96,766	2,694,018	3,055	2,793,839
Financial liabilities				
Bonds issued	–	1,144,440	–	1,144,440

Other than the above, the difference between the carrying amounts and fair values of those financial assets and liabilities not presented at their fair value in the condensed consolidated interim statement of financial position is insignificant. Fair value is measured using discounted cash flow model.

IV FINANCIAL RISK MANAGEMENT (Continued)

5 Capital management

The Group follows the principles below with regard to capital management:

- Adequate capital and sustainable development. Follow the lead of the strategic planning of the Group development; and maintain the high quality and adequacy of capital as to meet regulation requirements, support business growth, and advance the sustainable development of the scale, quality and performance of the business in the Group.

- Allocation optimisation and benefit augmentation. Allocate capital properly by prioritising the asset businesses with low capital occupancy and high comprehensive income, and steadily improve the efficiency and return of capital, to achieve the reciprocal matchup and dynamic equilibrium among risks, assets and returns.

- Refined management and capital level improvement. Optimise the capital management system by sufficiently identifying, calculating, monitoring, mitigating, and controlling various types of risks; incorporate capital restraints into the whole process of product pricing, resource allocation, structural adjustments, performance evaluation, etc., ensuring that the capital employed is commensurate with the related risks and the level of risk management.

Capital adequacy and regulatory capital are monitored by the Group's management, employing techniques based on the guidelines developed by the Basel Committee, as implemented by the CBIRC, for supervisory purposes. The required information is filed with the CBIRC on a quarterly basis.

The Group's capital adequacy ratios are calculated in accordance with the *Capital Rules for Commercial Banks (Provisional)* and other relevant regulations. With the approval of the CBIRC, the Group adopts the advanced capital measurement approaches, which include Foundation Internal Ratings-based Approach for corporate exposures, Internal Ratings-based Approach for retail exposures, Internal Models Approach for market risk and Standardised Approach for operational risk. For risk exposures not covered by the advanced approaches, the corresponding portion shall be calculated adopting non-advanced approaches.

As a Systemically Important Bank, the Group's capital adequacy ratios are required to meet the lowest requirements of the CBIRC, that is, the common equity tier 1 capital adequacy ratio, tier 1 capital adequacy ratio and capital adequacy ratio should be no less than 9.00%, 10.00% and 12.00%, respectively.

The Group's regulatory capital is managed by its capital management related departments and consists of the following:

- Common equity tier 1 capital, including common shares, capital reserve, surplus reserve, general reserve, undistributed profits, eligible portion of minority interests and others;

- Additional tier 1 capital, including additional tier 1 capital instruments issued and related premium and eligible portion of minority interests;

- Tier 2 capital, including tier 2 capital instruments issued and related premium, excess loan loss allowances and eligible portion of minority interests.

Goodwill, other intangible assets (except for land use rights), investments in common equity tier 1 capital of financial institutions with controlling interests but outside of the scope of regulatory consolidation, significant minority capital investment in tier 2 capital of financial institutions that are outside of the scope of regulatory consolidation and other deductible items are deducted from common equity tier 1 and tier 2 capital to derive at the regulatory capital.

IV FINANCIAL RISK MANAGEMENT (Continued)

5 Capital management (Continued)

The table below summarises the Group's common equity tier 1 capital adequacy ratio, tier 1 capital adequacy ratio and capital adequacy ratio [1] calculated in accordance with the *Capital Rules for Commercial Banks (Provisional)* and other relevant regulations.

	As at 30 June 2021	As at 31 December 2020
Common equity tier 1 capital adequacy ratio	**10.80%**	11.28%
Tier 1 capital adequacy ratio	**12.72%**	13.19%
Capital adequacy ratio	**15.61%**	16.22%
Composition of the Group's capital base		
Common equity tier 1 capital	**1,772,810**	1,730,401
Common shares	**294,388**	294,388
Capital reserve	**134,381**	134,221
Surplus reserve	**192,446**	192,251
General reserve	**269,155**	267,856
Undistributed profits	**844,621**	803,823
Eligible portion of minority interests	**34,141**	32,567
Other [2]	**3,678**	5,295
Regulatory deductions	**(24,696)**	(25,623)
Of which:		
Goodwill	**(182)**	(182)
Other intangible assets (except for land use rights)	**(14,653)**	(15,140)
Direct or indirect investments in own shares	**(51)**	(8)
Investments in common equity tier 1 capital of financial institutions with controlling interests but outside the scope of regulatory consolidation	**(9,817)**	(9,838)
Net common equity tier 1 capital	**1,748,114**	1,704,778
Additional tier 1 capital	**310,106**	287,843
Preference shares and related premium	**119,550**	147,519
Additional capital instruments and related premium	**179,960**	129,971
Eligible portion of minority interests	**10,596**	10,353
Net tier 1 capital	**2,058,220**	1,992,621
Tier 2 capital	**467,979**	458,434
Tier 2 capital instruments issued and related premium	**341,764**	333,381
Excess loan loss provisions	**116,354**	115,627
Eligible portion of minority interests	**9,861**	9,426
Net capital	**2,526,199**	2,451,055
Risk-weighted assets	**16,182,716**	15,109,085

(1) When calculating the capital adequacy ratios, Bank of China Group Investment Limited ("BOCG Investment"), Bank of China Insurance Company Limited ("BOC Insurance"), Bank of China Group Insurance Company Limited ("BOCG Insurance") and Bank of China Group Life Assurance Company Limited ("BOCG Life") were excluded from the scope of consolidation in accordance with requirements of the CBIRC.

(2) This mainly represents exchange differences from the translation of foreign operations and gains or losses on financial assets at fair value through other comprehensive income.

(Amounts in millions of Renminbi, unless otherwise stated)

I DIFFERENCES BETWEEN IFRS AND CAS CONSOLIDATED FINANCIAL STATEMENTS

There were no differences in the Group's operating results for the six month periods ended 30 June 2021 and 30 June 2020 or total equity as at 30 June 2021 and as at 31 December 2020 presented in the Group's consolidated financial statements prepared under IFRS and those prepared under CAS.

II UNREVIEWED SUPPLEMENTARY INFORMATION

1 Liquidity ratios, liquidity coverage ratio and net stable funding ratio

	As at 30 June 2021	As at 31 December 2020
RMB current assets to RMB current liabilities	**48.62%**	54.50%
Foreign currency current assets to foreign currency current liabilities	**66.64%**	58.57%

The liquidity ratios are calculated in accordance with the relevant provisions of the CBIRC.

Liquidity coverage ratio

According to the *Disclosure Rules on Liquidity Coverage Ratio of Commercial Banks*, the Group disclosed the information of liquidity coverage ratio ("LCR")(1) as follows.

Regulatory requirements of liquidity coverage ratio

As stipulated by the *Rules on Liquidity Risk Management of Commercial Banks*, the minimum regulatory requirement of LCR is 100%.

The Group's liquidity coverage ratio

Since 2017, the Group measured the LCR on a day-to-day consolidated basis(2). In the second quarter of 2021, the Group measured 91-day LCR on this basis with average ratio(3) standing at 127.51%, representing a decrease of 5.79 percentage points over the previous quarter, which was primarily due to the decrease in the high-quality liquid assets ("HQLA").

	2021		2020	
	Quarter ended 30 June	Quarter ended 31 March	Quarter ended 31 December	Quarter ended 30 September
Average value of LCR	**127.51%**	**133.30%**	139.79%	137.36%

1 Liquidity ratios, liquidity coverage ratio and net stable funding ratio (Continued)

The Group's liquidity coverage ratio (Continued)

The Group's average values[(3)] of consolidated LCR individual line items in the second quarter of 2021 are as follows:

No.		Total unweighted value	Total weighted value
High-quality liquid assets			
1	Total high-quality liquid assets (HQLA)		4,480,299
Cash outflows			
2	Retail deposits and deposits from small business customers, of which:	8,406,427	615,752
3	Stable deposits	4,359,663	211,076
4	Less stable deposits	4,046,764	404,676
5	Unsecured wholesale funding, of which:	9,968,151	3,835,769
6	Operational deposits (excluding those generated from correspondent banking activities)	5,393,739	1,323,083
7	Non-operational deposits (all counterparties)	4,503,017	2,441,291
8	Unsecured debts	71,395	71,395
9	Secured funding		164
10	Additional requirements, of which:	3,029,300	1,800,271
11	Outflows related to derivative exposures and other collateral requirements	1,694,248	1,694,248
12	Outflows related to loss of funding on debt products	–	–
13	Credit and liquidity facilities	1,335,052	106,023
14	Other contractual funding obligations	63,142	63,142
15	Other contingent funding obligations	2,995,334	85,147
16	**Total cash outflows**		6,400,245
Cash inflows			
17	Secured lending (including reverse repos and securities borrowing)	496,918	173,178
18	Inflows from fully performing exposures	1,524,977	913,551
19	Other cash inflows	1,904,643	1,797,628
20	**Total cash inflows**	3,926,538	2,884,357
			Total adjusted value
21	**Total HQLA**		4,480,299
22	**Total net cash outflows**		3,515,888
23	**Liquidity coverage ratio**		127.51%

(1) The LCR aims to ensure that commercial banks have sufficient HQLA that can be converted into cash to meet the liquidity requirements for at least thirty days under stress scenarios determined by the CBIRC.

(2) When calculating the consolidated LCR, BOCG Investment, BOC Insurance, BOCG Insurance and BOCG Life were excluded from the scope of consolidation in accordance with the requirements of the CBIRC.

(3) The average of LCR and the averages of all related individual items are the day-end simple arithmetic averages of figures over each quarter.

(Amounts in millions of Renminbi, unless otherwise stated)

II UNREVIEWED SUPPLEMENTARY INFORMATION (Continued)

1 Liquidity ratios, liquidity coverage ratio and net stable funding ratio (Continued)

Net stable funding ratio

In accordance with the *Disclosure Rules on Net Stable Funding Ratio of Commercial Banks*, the Group disclosed the information of net stable funding ratio ("NSFR")[(1)] as follows.

Regulatory requirements of net stable funding ratio

As stipulated by the *Rules on Liquidity Risk Management of Commercial Banks* issued by CBIRC, the minimum regulatory requirement of NSFR is 100%.

The Group's net stable funding ratio

As stipulated by the *Disclosure Rules on Net Stable Funding Ratio of Commercial Banks* issued by CBIRC, banks approved to implement the advanced approaches of capital measurement in accordance with *Capital Rules for Commercial Banks (Provisional)* shall disclose the information of NSFR for the preceding two consecutive quarters at least semi-annually.

As at 30 June 2021, the Group's NSFR was 121.22% on a consolidated basis[(2)], representing a decrease of 2.07 percentage points over the previous quarter. As at 31 March 2021, the Group's NSFR was 123.29%, representing a decrease of 0.21 percentage point over the previous quarter. The Group's NSFR remained stable, and met the regulatory requirement.

	2021		2020	
	Quarter ended 30 June	Quarter ended 31 March	Quarter ended 31 December	Quarter ended 30 September
Ending value of NSFR[(3)]	**121.22%**	**123.29%**	123.50%	123.29%

(1) NSFR is introduced to ensure commercial banks have sufficient source of stable funding, in order to meet the demand for stable funding of all various types of assets and off-balance sheet risk exposures.

(2) When calculating the consolidated NSFR, BOCG Investment, BOC Insurance, BOCG Insurance and BOCG Life were excluded from the scope of consolidation in accordance with the requirements of the CBIRC.

(3) NSFR are the ending values of each quarter.

II UNREVIEWED SUPPLEMENTARY INFORMATION (Continued)

1 Liquidity ratios, liquidity coverage ratio and net stable funding ratio (Continued)

The Group's net stable funding ratio (Continued)

The Group's consolidated NSFR individual line items at the end of the second quarter of 2021 are as follows:

No.	Items	Unweighted value				Weighted value
		No maturity	<6 months	6–12 months	≥1 year	
	Available Stable Funding (ASF) Item					
1	Capital	–	–	–	2,436,084	2,436,084
2	Regulatory capital	–	–	–	2,418,084	2,418,084
3	Other capital instruments	–	–	–	18,000	18,000
4	Retail deposits and deposits from small business customers	4,243,103	4,742,103	65,584	22,604	8,394,779
5	Stable deposits	1,867,644	2,641,105	20,534	8,192	4,311,011
6	Less stable deposits	2,375,459	2,100,998	45,050	14,412	4,083,768
7	Wholesale funding	6,177,281	5,995,786	1,154,094	487,709	5,774,093
8	Operational deposits	5,346,694	133,948	–	–	2,740,321
9	Other wholesale funding	830,587	5,861,838	1,154,094	487,709	3,033,772
10	Liabilities with matching interdependent assets	–	–	–	–	–
11	Other liabilities	74,847	193,657	4,812	443,432	313,267
12	NSFR derivative liabilities				132,571	
13	All other liabilities and equity not included in the above categories	74,847	193,657	4,812	310,861	313,267
14	**Total ASF**					**16,918,223**

(Amounts in millions of Renminbi, unless otherwise stated)

II UNREVIEWED SUPPLEMENTARY INFORMATION (Continued)

1 Liquidity ratios, liquidity coverage ratio and net stable funding ratio (Continued)

The Group's net stable funding ratio (Continued)

The Group's consolidated NSFR individual line items at the end of the second quarter of 2021 are as follows (Continued):

No.	Items	Unweighted value				Weighted value
		No maturity	<6 months	6–12 months	≥1 year	
	Required Stable Funding (RSF) Item					
15	Total NSFR high-quality liquid assets					735,372
16	Deposits held at other financial institutions for operational purposes	178,157	1,550	–	–	89,853
17	Loans and securities	50,222	5,053,079	2,524,926	10,246,703	11,649,357
18	Loans to financial institutions secured by Level 1 assets	–	374,070	–	–	37,407
19	Loans to financial institutions secured by non-Level 1 assets and unsecured loans to financial institutions	50,222	1,518,517	421,862	85,353	531,595
20	Loans to retail and small business customers, non-financial institutions, sovereigns, central banks and public sector entities (PSEs) of which:	–	2,837,134	1,842,352	5,201,187	6,626,040
21	With a risk weight of less than or equal to 35%	–	208,343	18,650	22,121	31,482
22	Residential mortgages of which:	–	93,316	97,254	4,439,092	3,813,627
23	With a risk weight of less than or equal to 35%	–	6,466	6,580	274,427	184,901
24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	–	230,042	163,458	521,071	640,688
25	Assets with matching interdependent liabilities	–	–	–	–	–
26	Other assets	689,385	70,723	7,249	621,322	1,216,472
27	Physical traded commodities, including gold	220,631				187,536
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs				484	411
29	NSFR derivative assets				127,876	–
30	NSFR derivative liabilities with additional requirements				26,514*	26,514
31	All other assets not included in the above categories	468,754	70,723	7,249	492,962	1,002,011
32	Off-balance sheet items				6,594,050	266,144
33	**Total RSF**					13,957,198
34	**NSFR**					121.22%

* Report derivative liabilities before deducting variation margin posted. There is no need to differentiate by maturities. The unweighted value should be excluded from the total value of item No. 26 "Other assets".

II UNREVIEWED SUPPLEMENTARY INFORMATION (Continued)

1 Liquidity ratios, liquidity coverage ratio and net stable funding ratio (Continued)

The Group's net stable funding ratio (Continued)

The Group's consolidated NSFR individual line items at the end of the first quarter of 2021 are as follows:

No.	Items	Unweighted value				Weighted value
		No maturity	<6 months	6–12 months	≥1 year	
Available Stable Funding (ASF) Item						
1	Capital	–	–	–	2,424,628	2,424,628
2	Regulatory capital	–	–	–	2,374,628	2,374,628
3	Other capital instruments	–	–	–	50,000	50,000
4	Retail deposits and deposits from small business customers	4,311,867	4,780,153	62,428	23,634	8,487,663
5	Stable deposits	1,871,853	2,609,462	19,175	9,085	4,284,550
6	Less stable deposits	2,440,014	2,170,691	43,253	14,549	4,203,113
7	Wholesale funding	5,684,180	5,798,654	1,211,525	507,462	5,804,210
8	Operational deposits	5,153,017	209,867	–	–	2,681,442
9	Other wholesale funding	531,163	5,588,787	1,211,525	507,462	3,122,768
10	Liabilities with matching interdependent assets	–	–	–	–	–
11	Other liabilities	75,224	216,261	5,567	432,815	272,153
12	NSFR derivative liabilities				163,446	
13	All other liabilities and equity not included in the above categories	75,224	216,261	5,567	269,369	272,153
14	**Total ASF**					**16,988,654**

(Amounts in millions of Renminbi, unless otherwise stated)

II UNREVIEWED SUPPLEMENTARY INFORMATION (Continued)

1 Liquidity ratios, liquidity coverage ratio and net stable funding ratio (Continued)

The Group's net stable funding ratio (Continued)

The Group's consolidated NSFR individual line items at the end of the first quarter of 2021 are as follows (Continued):

		Unweighted value				
No.	Items	No maturity	<6 months	6–12 months	≥1 year	Weighted value
Required Stable Funding (RSF) Item						
15	Total NSFR high-quality liquid assets					755,718
16	Deposits held at other financial institutions for operational purposes	210,545	2,157	–	–	106,351
17	Loans and securities	42,811	4,656,428	2,514,449	10,094,068	11,426,174
18	Loans to financial institutions secured by Level 1 assets	–	276,399	–	–	27,640
19	Loans to financial institutions secured by non-Level 1 assets and unsecured loans to financial institutions	42,811	1,414,503	457,840	96,656	544,173
20	Loans to retail and small business customers, non-financial institutions, sovereigns, central banks and public sector entities (PSEs) of which:	–	2,590,536	1,826,604	5,135,182	6,473,017
21	With a risk weight of less than or equal to 35%	–	232,060	14,593	4,599	27,955
22	Residential mortgages of which:	–	112,032	97,317	4,340,795	3,739,769
23	With a risk weight of less than or equal to 35%	–	6,440	6,618	272,909	183,920
24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	–	262,958	132,688	521,435	641,575
25	Assets with matching interdependent liabilities	–	–	–	–	–
26	Other assets	678,815	123,539	9,265	608,276	1,239,885
27	Physical traded commodities, including gold	213,142				181,171
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs				532	452
29	NSFR derivative assets				155,220	–
30	NSFR derivative liabilities with additional requirements				32,689*	32,689
31	All other assets not included in the above categories	465,673	123,539	9,265	452,524	1,025,573
32	Off-balance sheet items				6,333,142	250,883
33	**Total RSF**					13,779,011
34	**NSFR**					123.29%

* Report derivative liabilities before deducting variation margin posted. There is no need to differentiate by maturities. The unweighted value should be excluded from the total value of item No. 26 "Other assets".

II UNREVIEWED SUPPLEMENTARY INFORMATION (Continued)

2 Currency concentrations

The following information is computed in accordance with the provisions of the CBIRC.

	Equivalent in millions of RMB			
	USD	HKD	Other	Total
As at 30 June 2021				
Spot assets	**4,031,106**	**2,019,234**	**1,935,115**	**7,985,455**
Spot liabilities	**(3,845,797)**	**(2,420,607)**	**(1,721,401)**	**(7,987,805)**
Forward purchases	**4,551,726**	**876,957**	**1,475,622**	**6,904,305**
Forward sales	**(4,701,837)**	**(493,326)**	**(1,702,442)**	**(6,897,605)**
Net option position*	**(3,666)**	**375**	**6,612**	**3,321**
Net long/(short) position	**31,532**	**(17,367)**	**(6,494)**	**7,671**
Structural position	**62,331**	**238,793**	**77,196**	**378,320**
As at 31 December 2020				
Spot assets	3,695,294	1,607,291	1,945,381	7,247,966
Spot liabilities	(4,029,848)	(1,964,590)	(1,736,612)	(7,731,050)
Forward purchases	4,944,883	760,105	1,313,088	7,018,076
Forward sales	(4,546,040)	(420,572)	(1,536,300)	(6,502,912)
Net option position*	(19,306)	(364)	(6,615)	(26,285)
Net long/(short) position	44,983	(18,130)	(21,058)	5,795
Structural position	61,978	233,953	79,913	375,844

* The net option position is calculated in accordance with the relevant provisions of the CBIRC.

(Amounts in millions of Renminbi, unless otherwise stated)

II UNREVIEWED SUPPLEMENTARY INFORMATION (Continued)

3 International claims

The Group discloses international claims according to *Banking (Disclosure) Rules* (L.N. 160 of 2014). International claims are risk exposures generated from the countries or geographical areas where the counterparties take the ultimate risk while considering the transfer of the risk, exclude local claims on local residents in local currency. Risk transfer is only made if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a counterparty whose head office is located in another country.

International claims include "Balances with central banks", "Due from and placements with and loans to banks and other financial institutions", "Government certificates of indebtedness for bank notes issued", "Loans and advances to customers" and "Financial investments".

International claims have been disclosed by major countries or geographical areas. A country or geographical area is reported where it constitutes 10% or more of the aggregate amount of international claims, after taking into account any risk transfers.

	Banks	Official sector	Non-bank private sector	Total
As at 30 June 2021				
Asia Pacific				
Chinese mainland	**909,583**	**211,530**	**791,496**	**1,912,609**
Hong Kong, China	**65,145**	**1,750**	**488,105**	**555,000**
Other Asia Pacific locations	**109,797**	**175,900**	**424,203**	**709,900**
Subtotal	**1,084,525**	**389,180**	**1,703,804**	**3,177,509**
North and South America	**117,632**	**223,575**	**263,965**	**605,172**
Other	**394,232**	**163,953**	**270,811**	**828,996**
Total	**1,596,389**	**776,708**	**2,238,580**	**4,611,677**
As at 31 December 2020				
Asia Pacific				
Chinese mainland	675,133	236,529	702,641	1,614,303
Hong Kong, China	40,671	214	442,402	483,287
Other Asia Pacific locations	97,249	166,292	417,733	681,274
Subtotal	813,053	403,035	1,562,776	2,778,864
North and South America	81,312	233,162	173,112	487,586
Other	201,540	63,838	283,718	549,096
Total	1,095,905	700,035	2,019,606	3,815,546

II UNREVIEWED SUPPLEMENTARY INFORMATION (Continued)

4 Overdue assets

For the purpose of the table below, the entire outstanding balance of "Loans and advances to customers" and "Placements with and loans to banks and other financial institutions" are considered overdue if either principal or interest payment is overdue.

4.1 Total amount of overdue loans and advances to customers

	As at 30 June 2021	As at 31 December 2020
Total loans and advances to customers which have been overdue		
within 3 months	**78,996**	54,342
between 3 and 6 months	**15,913**	24,001
between 6 and 12 months	**35,077**	47,097
over 12 months	**48,862**	53,944
Total	**178,848**	179,384
Percentage		
within 3 months	**0.51%**	0.38%
between 3 and 6 months	**0.10%**	0.17%
between 6 and 12 months	**0.23%**	0.33%
over 12 months	**0.32%**	0.38%
Total	**1.16%**	1.26%

4.2 Total amount of overdue placements with and loans to banks and other financial institutions

The total amount of overdue "Placements with and loans to banks and other financial institutions" as at 30 June 2021 and 31 December 2020 was not considered material.

(Amounts in millions of Renminbi, unless otherwise stated)

II UNREVIEWED SUPPLEMENTARY INFORMATION (Continued)

5 Capital adequacy ratio supplementary information

5.1 Scope of consolidation

When calculating the Group's consolidated (the "Group") capital adequacy ratios, BOCG Investment, BOC Insurance, BOCG Insurance and BOCG Life were excluded from the scope of consolidation in accordance with requirements of the CBIRC, while other branches, subsidiaries and affiliates were included. For the Bank's unconsolidated (the "Bank") capital adequacy ratio calculations, only the branches were included, while the subsidiaries and affiliates were excluded.

5.2 Capital adequacy ratio

The Group and the Bank calculate the capital adequacy ratios in accordance with the *Capital Rules for Commercial Banks (Provisional)* as follows:

	Group		Bank	
	As at 30 June 2021	As at 31 December 2020	As at 30 June 2021	As at 31 December 2020
Net common equity tier 1 capital	**1,748,114**	1,704,778	**1,474,957**	1,441,977
Net tier 1 capital	**2,058,220**	1,992,621	**1,774,468**	1,719,467
Net capital	**2,526,199**	2,451,055	**2,225,969**	2,162,054
Common equity tier 1 capital adequacy ratio	**10.80%**	11.28%	**10.68%**	10.99%
Tier 1 capital adequacy ratio	**12.72%**	13.19%	**12.84%**	13.10%
Capital adequacy ratio	**15.61%**	16.22%	**16.11%**	16.47%

5.3 Risk-weighted assets

The Group's risk-weighted assets are as follows:

	As at 30 June 2021	As at 31 December 2020
Credit risk-weighted assets	**15,147,656**	14,072,655
Market risk-weighted assets	**129,419**	130,789
Operational risk-weighted assets	**905,641**	905,641
Risk-weighted assets increment required to reach capital floor	**–**	–
Total risk-weighted assets	**16,182,716**	15,109,085

5 Capital adequacy ratio supplementary information (Continued)

5.4 Credit risk exposures

The Group's credit risk exposures analysed by the calculation methods are as follows:

	As at 30 June 2021			
	On-balance sheet credit risk	Off-balance sheet credit risk	Counterparty credit risk	Total
Exposures covered by Internal Ratings-based Approach	**12,478,624**	**1,115,170**	**34,883**	**13,628,677**
Of which: Corporate exposures	**7,443,928**	**975,478**	**34,883**	**8,454,289**
Retail exposures	**5,034,696**	**139,692**	**–**	**5,174,388**
Exposures not covered by Internal Ratings-based Approach	**13,109,511**	**600,324**	**615,685**	**14,325,520**
Of which: Asset securitization	**67,572**	**116**	**–**	**67,688**
Total	**25,588,135**	**1,715,494**	**650,568**	**27,954,197**

	As at 31 December 2020			
	On-balance sheet credit risk	Off-balance sheet credit risk	Counterparty credit risk	Total
Exposures covered by Internal Ratings-based Approach	11,482,248	1,179,310	36,662	12,698,220
Of which: Corporate exposures	6,730,799	977,411	36,662	7,744,872
Retail exposures	4,751,449	201,899	–	4,953,348
Exposures not covered by Internal Ratings-based Approach	12,369,857	541,600	441,827	13,353,284
Of which: Asset securitization	77,276	192	–	77,468
Total	23,852,105	1,720,910	478,489	26,051,504

5.5 Capital requirements on market risk

The Group's capital requirements on market risk are as follows:

	Capital requirements	
	As at 30 June 2021	As at 31 December 2020
Covered by Internal Model Approach	**5,867**	7,148
Not covered by Internal Model Approach	**4,487**	3,315
Interest rate risk	**3,778**	2,600
Equity risk	**407**	220
Foreign exchange risk	**–**	–
Commodity risk	**302**	495
Total	**10,354**	10,463

(Amounts in millions of Renminbi, unless otherwise stated)

II UNREVIEWED SUPPLEMENTARY INFORMATION (Continued)

5 Capital adequacy ratio supplementary information (Continued)

5.6 VaR

The VaR and stressed VaR of the Group covered by the Internal Model Approach are as follows:

	Six month period ended 30 June 2021			
	Average	**Maximum**	**Minimum**	**End**
VaR	**982**	**1,711**	**380**	**413**
Stressed VaR	**1,249**	**1,756**	**756**	**854**

	Year ended 31 December 2020			
	Average	**Maximum**	**Minimum**	**End**
VaR	917	2,211	463	596
Stressed VaR	1,226	2,211	703	1,104

5.7 Operational risk management

During the reporting period, the Group used the Standardised Approach to measure the consolidated operational risk capital requirement, which amounted to RMB72,451 million. Please refer to the section "Management Discussion and Analysis — Risk Management".

5.8 Interest rate risk in the banking book

The Group measures interest rate risk in the banking book mainly through the analysis of interest rate repricing gaps, on which the sensitivity analysis is based. The results are as follows.

Interest rate sensitivity analysis

	Effect on Net Interest Income	
	As at 30 June 2021	**As at 31 December 2020**
Items		
+25 basis points	**(5,065)**	(4,107)
- 25 basis points	**5,065**	4,107

5 Capital adequacy ratio supplementary information (Continued)

Annex 1: Composition of capital

		As at 30 June 2021	As at 31 December 2020	Code
Common equity tier 1 capital				
1	Paid-in capital	**294,388**	294,388	j
2	Retained earnings	**1,306,222**	1,263,930	
2a	Surplus reserve	**192,446**	192,251	r
2b	General reserve	**269,155**	267,856	s
2c	Undistributed profits	**844,621**	803,823	t
3	Accumulated other comprehensive income (and other reserves)	**138,059**	139,516	
3a	Capital reserve	**134,381**	134,221	m
3b	Currency translation differences	**(21,834)**	(19,496)	q
3c	Others	**25,512**	24,791	o-q
4	Amount attributable to common equity tier 1 capital in the transitional period	**–**	–	
5	Eligible portion of minority interests	**34,141**	32,567	u
6	**Common equity tier 1 capital before regulatory adjustment**	**1,772,810**	1,730,401	
Common equity tier 1 capital: regulatory adjustment				
7	Prudential valuation adjustment	**–**	–	
8	Goodwill (net of deferred tax liabilities deduction)	**(182)**	(182)	-h
9	Other intangible assets (excluding land use rights) (net of deferred tax liabilities deduction)	**(14,653)**	(15,140)	g-f
10	Net deferred tax assets incurred due to operating losses, relying on the bank's future profitability to be realized	**–**	–	
11	Reserve relating to cash-flow hedge items not measured at fair value	**–**	–	-p
12	Shortfall of loan loss provisions	**–**	–	
13	Gains on sale of securitization	**–**	–	
14	Unrealized gains and losses that have been resulted from changes in the fair value of liabilities due to changes in own credit risk	**–**	–	
15	Net pension assets with fixed yield (net of deferred tax liabilities deduction)	**–**	–	
16	Direct or indirect investments in own shares	**(51)**	(8)	n
17	Reciprocal cross holdings in common equity of banks or other financial institutions based on agreement	**–**	–	
18	Non-significant minority investments in common equity tier 1 capital of financial institutions that are outside the scope of regulatory consolidation (deductible part)	**–**	–	
19	Significant minority investments in common equity tier 1 capital of financial institutions that are outside the scope of regulatory consolidation (deductible part)	**–**	–	
20	Collateralized loan service rights	**Not applicable**	Not applicable	
21	Deductible amount of other net deferred tax assets relying on the bank's future profitability	**–**	–	
22	Deductible amount of the non-deducted part of common equity tier 1 capital of significant minority investments in financial institutions that are outside the scope of regulatory consolidation and other net deferred tax assets relying on the bank's future profitability in excess of 15% of common equity tier 1 capital	**–**	–	

(Amounts in millions of Renminbi, unless otherwise stated)

II UNREVIEWED SUPPLEMENTARY INFORMATION (Continued)

5 Capital adequacy ratio supplementary information (Continued)

Annex 1: Composition of capital (Continued)

		As at 30 June 2021	As at 31 December 2020	Code
23	Of which: Amount deductible out of significant minority investments in financial institutions	**–**	–	
24	Of which: Amount deductible out of collateralized loan service rights	**Not applicable**	Not applicable	
25	Of which: Amount deductible out of other net deferred tax assets relying on the bank's future profitability	**–**	–	
26a	Investment in common equity tier 1 capital of financial institutions with controlling interests but outside the scope of regulatory consolidation	**(9,817)**	(9,838)	-e
26b	Gap of common equity tier 1 capital of controlled but unconsolidated financial institutions	**–**	–	
26c	Total of other items deductible out of common equity tier 1 capital	**7**	(455)	
27	Non-deducted gap deductible out of additional tier 1 capital and tier 2 capital	**–**	–	
28	**Total regulatory adjustment of common equity tier 1 capital**	**(24,696)**	(25,623)	
29	**Net common equity tier 1 capital**	**1,748,114**	1,704,778	
Additional tier 1 capital				
30	Additional tier 1 capital instruments and related premiums	**299,510**	277,490	
31	Of which: Equity part	**299,510**	277,490	k+l
32	Of which: Liability part	**–**	–	
33	Instruments non-attributable to additional tier 1 capital after the transitional period	**–**	–	
34	Eligible portion of minority interests	**10,596**	10,353	v
35	Of which: Part of instruments non-attributable to additional tier 1 capital after the transitional period	**–**	–	
36	**Additional tier 1 capital before regulatory adjustment**	**310,106**	287,843	
Additional tier 1 capital: Regulatory adjustment				
37	Direct or indirect investments in additional tier 1 capital of own banks	**–**	–	
38	Additional tier 1 capital cross-held between banks or between the bank and other financial institutions based on agreement	**–**	–	
39	Non-significant minority investments in additional tier 1 capital of unconsolidated financial institutions (deductible part)	**–**	–	
40	Significant minority investments in additional tier 1 capital of financial institutions that are outside the scope of regulatory consolidation	**–**	–	
41a	Investment in additional tier 1 capital of financial institutions with controlling interests but outside the scope of regulatory consolidation	**–**	–	
41b	Gap of additional tier 1 capital of financial institutions with controlling interests but outside the scope of regulatory consolidation	**–**	–	
41c	Other deductions from additional tier 1 capital	**–**	–	
42	Non-deducted gaps deductible from tier 2 capital	**–**	–	
43	**Total regulatory adjustment of additional tier 1 capital**	**–**	–	
44	**Net additional tier 1 capital**	**310,106**	287,843	
45	**Net tier 1 capital (net common equity tier 1 capital + net additional tier 1 capital)**	**2,058,220**	1,992,621	

II UNREVIEWED SUPPLEMENTARY INFORMATION (Continued)

5 Capital adequacy ratio supplementary information (Continued)

Annex 1: Composition of capital (Continued)

		As at 30 June 2021	As at 31 December 2020	Code
Tier 2 capital				
46	Tier 2 capital instruments issued and related premium	**341,764**	333,381	
47	Of which: Part of instruments non-attributable to tier 2 capital after the transitional period	**16,456**	32,911	i
48	Eligible portion of minority interests	**9,861**	9,426	
49	Of which: Part of minority interests non-attributable to tier 2 capital after the transitional period	**–**	–	
50	Excess loan loss provisions included in tier 2 capital	**116,354**	115,627	-b-d
51	**Tier 2 capital before regulatory adjustment**	**467,979**	458,434	
Tier 2 capital: Regulatory adjustment				
52	Tier 2 capital of the bank held directly or indirectly	**–**	–	
53	Tier 2 capital cross-held between banks or between the bank and other financial institutions based on agreement	**–**	–	
54	Non-significant minority investments in tier 2 capital of financial institutions that are outside the scope of regulatory consolidation (deductible part)	**–**	–	
55	Significant minority investments in tier 2 capital of financial institutions that are outside the scope of regulatory consolidation	**–**	–	
56a	Investment in tier 2 capital of financial institutions with controlling interests but outside the scope of regulatory consolidation	**–**	–	
56b	Gap of tier 2 capital of controlled but unconsolidated financial institutions	**–**	–	
56c	Other deductions from tier 2 capital	**–**	–	
57	**Total regulatory adjustment of tier 2 capital**	**–**	–	
58	**Net tier 2 capital**	**467,979**	458,434	
59	**Total net capital (net tier 1 capital + net tier 2 capital)**	**2,526,199**	2,451,055	
60	**Total risk-weighted assets**	**16,182,716**	15,109,085	

(Amounts in millions of Renminbi, unless otherwise stated)

II UNREVIEWED SUPPLEMENTARY INFORMATION (Continued)

5 Capital adequacy ratio supplementary information (Continued)

Annex 1: Composition of capital (Continued)

		As at 30 June 2021	As at 31 December 2020	Code
Capital adequacy ratio and reserve capital requirement				
61	Common equity tier 1 capital adequacy ratio	**10.80%**	11.28%	
62	Tier 1 capital adequacy ratio	**12.72%**	13.19%	
63	Capital adequacy ratio	**15.61%**	16.22%	
64	Institution-specific capital requirement	**4.00%**	4.00%	
65	Of which: Capital reserve requirement	**2.50%**	2.50%	
66	Of which: Countercyclical reserve requirement	**–**	–	
67	Of which: Additional capital requirement of G-SIBs	**1.50%**	1.50%	
68	Ratio of common equity tier 1 capital meeting buffer area to risk-weighted assets	**5.80%**	6.28%	
Domestic minimum regulatory capital requirement				
69	Common equity tier 1 capital adequacy ratio	**5.00%**	5.00%	
70	Tier 1 capital adequacy ratio	**6.00%**	6.00%	
71	Capital adequacy ratio	**8.00%**	8.00%	
Non-deducted part of threshold deductibles				
72	Non-significant minority investments of financial institutions that are outside the scope of regulatory consolidation (non-deductible part)	**133,427**	145,761	
73	Significant minority investments of financial institutions that are outside the scope of regulatory consolidation (non-deductible part)	**7,229**	7,150	
74	Collateralized loan service rights (net of deferred tax liabilities deduction)	**Not applicable**	Not applicable	
75	Other net deferred tax assets relying on the bank's future profitability (net of deferred tax liabilities deduction)	**47,306**	57,407	
Limit of excess loan loss provisions attributable to tier 2 capital				
76	Actual accrued loan loss provisions amount under the Regulatory Weighting Approach	**63,881**	63,006	-a
77	Amount of excess loan loss provisions attributable to tier 2 capital under the Regulatory Weighting Approach	**29,569**	29,599	-b
78	Actual accrued excess loan loss provisions amount under the Internal Ratings-based Approach	**86,785**	86,028	-c
79	Amount of excess loan loss provisions attributable to tier 2 capital under the Internal Ratings-based Approach	**86,785**	86,028	-d
Capital instruments meeting exit arrangement				
80	Amount attributable to common equity tier 1 capital of the current period derived from the transitional period arrangement	**–**	–	
81	Amount non-attributable to common equity tier 1 capital derived from the transitional period arrangement	**–**	–	
82	Amount attributable to additional tier 1 capital of the current period derived from the transitional period arrangement	**–**	–	
83	Amount non-attributable to additional tier 1 capital derived from the transitional period arrangement	**–**	–	
84	Amount attributable to tier 2 capital of the current period derived from the transitional period arrangement	**16,456**	32,911	i
85	Amount non-attributable to tier 2 capital of the current period derived from the transitional period arrangement	**1,544**	17,089	

II UNREVIEWED SUPPLEMENTARY INFORMATION (Continued)

5 Capital adequacy ratio supplementary information (Continued)

Annex 2: Financial and regulatory consolidated balance sheet

	As at 30 June 2021		As at 31 December 2020	
	Financial consolidated	Regulatory consolidated	Financial consolidated	Regulatory consolidated
ASSETS				
Cash and balances with central banks	**2,314,428**	**2,314,428**	2,155,665	2,155,665
Due from banks and other financial institutions	**665,180**	**659,062**	724,320	717,952
Precious metals	**207,914**	**207,914**	223,313	223,313
Placements with and loans to banks and other financial institutions	**809,837**	**809,258**	709,263	708,643
Derivative financial assets	**116,240**	**116,156**	171,738	171,619
Reverse repurchase transactions	**561,824**	**561,779**	230,057	229,894
Loans and advances to customers	**15,047,714**	**15,042,511**	13,848,304	13,843,088
Financial investments	**5,821,520**	**5,601,146**	5,591,117	5,385,411
— financial assets at fair value through profit or loss	**510,583**	**392,234**	504,549	391,945
— financial assets at fair value through other comprehensive income	**2,174,982**	**2,141,804**	2,107,790	2,077,154
— financial assets at amortised cost	**3,135,955**	**3,067,108**	2,978,778	2,916,312
Long term equity investment	**35,552**	**66,636**	33,508	65,671
Investment properties	**20,885**	**13,948**	22,065	14,194
Property and equipment	**245,998**	**91,591**	248,589	95,431
Right-of-use assets	**21,299**	**22,461**	22,855	24,239
Intangible assets	**21,425**	**20,019**	22,140	20,706
Goodwill	**2,507**	**182**	2,525	182
Deferred income tax assets	**48,650**	**47,306**	58,916	57,407
Other assets	**376,354**	**310,242**	338,284	274,402
Total assets	**26,317,327**	**25,884,639**	24,402,659	23,987,817

(Amounts in millions of Renminbi, unless otherwise stated)

II UNREVIEWED SUPPLEMENTARY INFORMATION (Continued)

5 Capital adequacy ratio supplementary information (Continued)

Annex 2: Financial and regulatory consolidated balance sheet (Continued)

	As at 30 June 2021		As at 31 December 2020	
	Financial consolidated	Regulatory consolidated	Financial consolidated	Regulatory consolidated
LIABILITIES				
Due to central banks	**895,824**	**895,824**	887,811	887,811
Due to banks and other financial institutions	**2,360,341**	**2,360,341**	1,917,003	1,917,003
Placements from banks and other financial institutions	**350,993**	**337,379**	284,747	272,875
Financial liabilities held for trading	**12,706**	**12,706**	17,912	17,912
Derivative financial liabilities	**121,560**	**120,665**	212,052	210,655
Repurchase transactions	**149,016**	**148,618**	127,202	127,159
Due to customers	**18,227,771**	**18,232,731**	16,879,171	16,883,254
Employee benefits payable	**29,435**	**28,084**	36,378	34,868
Current tax liabilities	**28,322**	**28,212**	55,665	55,384
Contingent liabilities	**27,719**	**27,719**	29,492	29,492
Lease liabilities	**20,981**	**22,706**	21,893	23,776
Bonds issued	**1,301,561**	**1,211,146**	1,244,403	1,160,174
Deferred income tax liabilities	**6,834**	**1,169**	6,499	1,092
Other liabilities	**553,916**	**305,409**	519,594	277,519
Total liabilities	**24,086,979**	**23,732,709**	22,239,822	21,898,974
EQUITY				
Share capital	**294,388**	**294,388**	294,388	294,388
Other equity instruments	**299,510**	**299,510**	277,490	277,490
Of which: Preference shares	**119,550**	**119,550**	147,519	147,519
Undated capital bonds	**179,960**	**179,960**	129,971	129,971
Capital reserve	**136,178**	**134,381**	135,973	134,221
Less: Treasury shares	**(51)**	**(51)**	(8)	(8)
Other comprehensive income	**1,810**	**3,678**	4,309	5,295
Surplus reserve	**193,667**	**192,446**	193,438	192,251
General reserve	**269,280**	**269,155**	267,981	267,856
Undistributed profits	**910,565**	**844,621**	864,848	803,823
Capital and reserves attributable to equity holders of the Bank	**2,105,347**	**2,038,128**	2,038,419	1,975,316
Non-controlling interests	**125,001**	**113,802**	124,418	113,527
Total equity	**2,230,348**	**2,151,930**	2,162,837	2,088,843
Total equity and liabilities	**26,317,327**	**25,884,639**	24,402,659	23,987,817

II UNREVIEWED SUPPLEMENTARY INFORMATION (Continued)

5 Capital adequacy ratio supplementary information (Continued)

Annex 3: Reconciliation and illustration of balance sheet items

	As at 30 June 2021	As at 31 December 2020	Code
ASSETS			
Cash and balances with central banks	**2,314,428**	2,155,665	
Due from banks and other financial institutions	**659,062**	717,952	
Precious metals	**207,914**	223,313	
Placements with and loans to banks and other financial institutions	**809,258**	708,643	
Derivative financial assets	**116,156**	171,619	
Reverse repurchase transactions	**561,779**	229,894	
Loans and advances to customers	**15,042,511**	13,843,088	
Of which: Actual accrued loan loss provisions amount under the Regulatory Weighting Approach	**(63,881)**	(63,006)	a
Of which: Amount of excess loan loss provisions attributable to tier 2 capital under the Regulatory Weighting Approach	**(29,569)**	(29,599)	b
Of which: Actual accrued excess loan loss provisions amount under the Internal Ratings-based Approach	**(86,785)**	(86,028)	c
Of which: Amount of excess loan loss provisions attributable to tier 2 capital under the Internal Ratings-based Approach	**(86,785)**	(86,028)	d
Financial investments	**5,601,146**	5,385,411	
— financial assets at fair value through profit or loss	**392,234**	391,945	
— financial assets at fair value through other comprehensive income	**2,141,804**	2,077,154	
— financial assets at amortised cost	**3,067,108**	2,916,312	
Long term equity investment	**66,636**	65,671	
Of which: Investment in common equity tier 1 capital of financial institutions with controlling interests but outside the scope of regulatory consolidation	**9,817**	9,838	e
Investment properties	**13,948**	14,194	
Property and equipment	**91,591**	95,431	
Right-of-use assets	**22,461**	24,239	
Intangible assets	**20,019**	20,706	f
Of which: Land use rights	**5,366**	5,566	g
Goodwill	**182**	182	h
Deferred income tax assets	**47,306**	57,407	
Other assets	**310,242**	274,402	
Total assets	**25,884,639**	23,987,817	

(Amounts in millions of Renminbi, unless otherwise stated)

II UNREVIEWED SUPPLEMENTARY INFORMATION (Continued)

5 Capital adequacy ratio supplementary information (Continued)

Annex 3: Reconciliation and illustration of balance sheet items (Continued)

	As at 30 June 2021	As at 31 December 2020	Code
LIABILITIES			
Due to central banks	**895,824**	887,811	
Due to banks and other financial institutions	**2,360,341**	1,917,003	
Placements from banks and other financial institutions	**337,379**	272,875	
Financial liabilities held for trading	**12,706**	17,912	
Derivative financial liabilities	**120,665**	210,655	
Repurchase transactions	**148,618**	127,159	
Due to customers	**18,232,731**	16,883,254	
Employee benefits payable	**28,084**	34,868	
Current tax liabilities	**28,212**	55,384	
Contingent liabilities	**27,719**	29,492	
Lease liabilities	**22,706**	23,776	
Bonds issued	**1,211,146**	1,160,174	
Of which: Amount attributable to tier 2 capital of the current period derived from the transitional period arrangement	**16,456**	32,911	i
Deferred income tax liabilities	**1,169**	1,092	
Other liabilities	**305,409**	277,519	
Total liabilities	**23,732,709**	21,898,974	
EQUITY			
Share capital	**294,388**	294,388	j
Other equity instruments	**299,510**	277,490	
Of which: Preference shares	**119,550**	147,519	k
Undated capital bonds	**179,960**	129,971	l
Capital reserve	**134,381**	134,221	m
Less: Treasury shares	**(51)**	(8)	n
Other comprehensive income	**3,678**	5,295	o
Of which: Reserve relating to cash-flow hedge items not measured at fair value	**–**	–	p
Of which: Currency translation differences	**(21,834)**	(19,496)	q
Surplus reserve	**192,446**	192,251	r
General reserve	**269,155**	267,856	s
Undistributed profits	**844,621**	803,823	t
Capital and reserves attributable to equity holders of the Bank	**2,038,128**	1,975,316	
Non-controlling interests	**113,802**	113,527	
Of which: Amount attributable to common equity tier 1 capital	**34,141**	32,567	u
Of which: Amount attributable to additional tier 1 capital	**10,596**	10,353	v
Total equity	**2,151,930**	2,088,843	
Total equity and liabilities	**25,884,639**	23,987,817	

5 Capital adequacy ratio supplementary information (Continued)

Annex 4: Main attributes of capital instruments

No.	Item	Common shares (A share)	Common shares (H share)	Preference shares (Domestic)	Preference shares (Domestic)	Preference shares (Offshore)	Undated capital bonds	Undated capital bonds	Undated capital bonds	Undated capital bonds	Undated capital bonds
1	Issuer	Bank of China Limited	Bank of China Limited	Bank of China Limited	Bank of China Limited	Bank of China Limited	Bank of China Limited	Bank of China Limited	Bank of China Limited	Bank of China Limited	Bank of China Limited
2	Identification code	601988.SH	3988.HK	360033.SH	360035.SH	4619.HK	1928001.IB	2028014.IB	2028048.IB	2028053.IB	2128019.IB
3	Applicable law	PRC law	Hong Kong SAR (China) law	PRC law	PRC law	Hong Kong SAR (China) law	PRC law	PRC law	PRC law	PRC law	PRC law
	Regulatory processing										
4	Of which: Applicable to transitional period rules specified by *Capital Rules for Commercial Banks (Provisional)*	Common equity tier 1 capital	Common equity tier 1 capital	Additional tier 1 capital	Additional tier 1 capital	Additional tier 1 capital	Additional tier 1 capital	Additional tier 1 capital	Additional tier 1 capital	Additional tier 1 capital	Additional tier 1 capital
5	Of which: Applicable to the rules after expiration of the transitional period specified by *Capital Rules for Commercial Banks (Provisional)*	Common equity tier 1 capital	Common equity tier 1 capital	Additional tier 1 capital	Additional tier 1 capital	Additional tier 1 capital	Additional tier 1 capital	Additional tier 1 capital	Additional tier 1 capital	Additional tier 1 capital	Additional tier 1 capital
6	Of which: Applicable to bank/group level	Bank and group level	Bank and group level	Bank and group level	Bank and group level	Bank and group level	Bank and group level	Bank and group level	Bank and group level	Bank and group level	Bank and group level
7	Instrument type	Common shares	Common shares	Preference shares	Preference shares	Preference shares	Undated capital bonds	Undated capital bonds	Undated capital bonds	Undated capital bonds	Undated capital bonds
8	Amount attributable to regulatory capital (the last reporting day)	282,433	145,603	72,979	26,990	19,581	39,992	39,990	29,994	19,995	49,989
9	Par value of instrument	210,766	83,622	73,000	27,000	19,787	40,000	40,000	30,000	20,000	50,000
10	Accounting treatment	Share capital and capital reserve	Share capital and capital reserve	Other equity instrument	Other equity instrument	Other equity instrument	Other equity instrument	Other equity instrument	Other equity instrument	Other equity instrument	Other equity instrument
11	Initial issuing date	2006/6/29	2006/6/1 2006/6/9	2019/6/24	2019/8/26	2020/3/4	2019/1/25	2020/4/28	2020/11/13	2020/12/10	2021/5/17
12	Term (term or perpetual)	Perpetual	Perpetual	Perpetual	Perpetual	Perpetual	Perpetual	Perpetual	Perpetual	Perpetual	Perpetual
13	Of which: Original maturity date	No maturity date	No maturity date	No maturity date	No maturity date	No maturity date	No maturity date	No maturity date	No maturity date	No maturity date	No maturity date
14	Issuer's redemption (subject to regulatory approval)	No	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
15	Of which: Redemption date (or have redemption date) and amount	Not applicable	Not applicable	Subject to approval by the CBIRC, the Bank has the right to redeem all or part of the Domestic Preference Shares after 5 years from the date of issuance thereafter	Subject to approval by the CBIRC, the Bank has the right to redeem all or part of the Domestic Preference Shares after 5 years from the date of issuance thereafter	Subject to approval by the CBIRC, the Bank has the right to redeem all or part of the Offshore Preference Shares after 5 years from the date of issuance and at every Dividend Payment Date thereafter	Subject to approval by the CBIRC, the Bank has the right to redeem all or part of the Bonds after 5 years from the date of issuance and at every Distribution Payment Date thereafter	Subject to approval by the CBIRC, the Bank has the right to redeem all or part of the Bonds after 5 years from the date of issuance and at every Distribution Payment Date thereafter	Subject to approval by the CBIRC, the Bank has the right to redeem all or part of the Bonds after 5 years from the date of issuance and at every Distribution Payment Date thereafter	Subject to approval by the CBIRC, the Bank has the right to redeem all or part of the Bonds after 5 years from the date of issuance and at every Distribution Payment Date thereafter	Subject to approval by the CBIRC, the Bank has the right to redeem all or part of the Bonds after 5 years from the date of issuance and at every Distribution Payment Date thereafter

(Amounts in millions of Renminbi, unless otherwise stated)

II UNREVIEWED SUPPLEMENTARY INFORMATION (Continued)

5 Capital adequacy ratio supplementary information (Continued)

Annex 4: Main attributes of capital instruments (Continued)

No. Item	Common shares (A share)	Common shares (H share)	Preference shares (Domestic)	Preference shares (Domestic)	Preference shares (Offshore)	Undated capital bonds	Undated capital bonds	Undated capital bonds	Undated capital bonds	Undated capital bonds
Regulatory processing (Continued)										
16 Of which: Subsequent redemption date (if any)	Not applicable	Not applicable	Subject to approval by the CBIRC, the Bank has the right to redeem all or part of the Domestic Preference Shares after 5 years from the date of issuance thereafter	Subject to approval by the CBIRC, the Bank has the right to redeem all or part of the Domestic Preference Shares after 5 years from the date of issuance thereafter	Subject to approval by the CBIRC, the Bank has the right to redeem all or part of the Offshore Preference Shares after 5 years from the date of issuance and at every Dividend Payment Date thereafter	Subject to approval by the CBIRC, the Bank may redeem the Bonds in whole or in part on each Distribution Payment Date from and including 5 years after the issuance of the Bonds. The Bank has the right to redeem all, but not some, of the Bonds in the following circumstances: After the Issuance, the Bonds will no longer qualify as Additional Tier 1 Capital of the Issuer as a result of an unforeseeable change or amendment in the relevant provisions of supervisory regulations	Subject to approval by the CBIRC, the Bank may redeem the Bonds in whole or in part on each Distribution Payment Date from and including 5 years after the issuance of the Bonds. The Bank has the right to redeem all, but not some, of the Bonds in the following circumstances: After the Issuance, the Bonds will no longer qualify as Additional Tier 1 Capital of the Issuer as a result of an unforeseeable change or amendment in the relevant provisions of supervisory regulations	Subject to approval by the CBIRC, the Bank may redeem the Bonds in whole or in part on each Distribution Payment Date from and including 5 years after the issuance of the Bonds. The Bank has the right to redeem all, but not some, of the Bonds in the following circumstances: After the Issuance, the Bonds will no longer qualify as Additional Tier 1 Capital of the Issuer as a result of an unforeseeable change or amendment in the relevant provisions of supervisory regulations	Subject to approval by the CBIRC, the Bank may redeem the Bonds in whole or in part on each Distribution Payment Date from and including 5 years after the issuance of the Bonds. The Bank has the right to redeem all, but not some, of the Bonds in the following circumstances: After the Issuance, the Bonds will no longer qualify as Additional Tier 1 Capital of the Issuer as a result of an unforeseeable change or amendment in the relevant provisions of supervisory regulations	Subject to approval by the CBIRC, the Bank may redeem the Bonds in whole or in part on each Distribution Payment Date from and including 5 years after the issuance of the Bonds. The Bank has the right to redeem all, but not some, of the Bonds in the following circumstances: After the Issuance, the Bonds will no longer qualify as Additional Tier 1 Capital of the Issuer as a result of an unforeseeable change or amendment in the relevant provisions of supervisory regulations
Dividend or interest payment										
17 Of which: Fixed or floating dividend or interest payment	Floating	Floating	Adjustable dividend rate	Adjustable dividend rate	Adjustable dividend rate	Adjustable distribution rate	Adjustable distribution rate	Adjustable distribution rate	Adjustable distribution rate	Adjustable distribution rate
18 Of which: Coupon rate and relevant indicators	Not applicable	Not applicable	4.50% (dividend yield, before tax) for the first five years, is reset based on the benchmark rate plus a fixed spread at the dividend reset date every five years, and the dividend yield during each reset period remains unchanged	4.35% (dividend yield, before tax) for the first five years, is reset based on the benchmark rate plus a fixed spread at the dividend reset date every five years, and the dividend yield during each reset period remains unchanged	3.60% (dividend yield, after tax) for the first five years, is reset based on the benchmark rate plus a fixed spread at the dividend reset date every five years, and the dividend yield during each reset period remains unchanged	4.50% in the first 5 years. The distribution rate will be adjusted by the yield to maturity of the applicable 5 years Chinese government notes plus a fixed spread, with a distribution rate adjustment period every 5 years after the payment date. The distribution rate is fixed during each adjustment period	3.40% in the first 5 years. The distribution rate will be adjusted by the yield to maturity of the applicable 5 years Chinese government notes plus a fixed spread, with a distribution rate adjustment period every 5 years after the payment date. The distribution rate is fixed during each adjustment period	4.55% in the first 5 years. The distribution rate will be adjusted by the yield to maturity of the applicable 5 years Chinese government notes plus a fixed spread, with a distribution rate adjustment period every 5 years after the payment date. The distribution rate is fixed during each adjustment period	4.70% in the first 5 years. The distribution rate will be adjusted by the yield to maturity of the applicable 5 years Chinese government notes plus a fixed spread, with a distribution rate adjustment period every 5 years after the payment date. The distribution rate is fixed during each adjustment period	4.08% in the first 5 years. The distribution rate will be adjusted by the yield to maturity of the applicable 5 years Chinese government notes plus a fixed spread, with a distribution rate adjustment period every 5 years after the payment date. The distribution rate is fixed during each adjustment period

5 Capital adequacy ratio supplementary information (Continued)

Annex 4: Main attributes of capital instruments (Continued)

No.	Item	Common shares (A share)	Common shares (H share)	Preference shares (Domestic)	Preference shares (Domestic)	Preference shares (Offshore)	Undated capital bonds	Undated capital bonds	Undated capital bonds	Undated capital bonds	Undated capital bonds
	Dividend or interest payment (Continued)										
19	Of which: Existence of dividend brake mechanism	Not applicable	Not applicable	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
20	Of which: Discretion to cancel dividend or interest payment	Full discretion	Full discretion	Full discretion	Full discretion	Full discretion	Full discretion	Full discretion	Full discretion	Full discretion	Full discretion
21	Of which: Existence of redemption incentive mechanism	No	No	No	No	No	No	No	No	No	No
22	Of which: Cumulative or noncumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative
23	Conversion into shares	Not applicable	Not applicable	Yes	Yes	Yes	No	No	No	No	No
24	Of which: Please specify the trigger condition for share conversion, if allowed	Not applicable	Not applicable	(1) Upon the occurrence of any Additional Tier 1 Capital Instrument Trigger Event, that is, the CET 1 CAR drops to 5.125% or below, the Domestic Preference Shares shall be wholly or partly converted into A Shares so as to restore the CET1 CAR above the trigger point; (2) upon the occurrence of any Tier 2 Capital Instrument Trigger Event, all of the Domestic Preference Shares shall be converted into A Shares. "Tier 2 Capital Instrument Trigger Event" means either of the following circumstances (whichever is earlier): (i) the CBIRC having concluded that a conversion or write-off is necessary without which the Bank would become non-viable; or (ii) the relevant authorities having concluded that a public sector injection of capital or equivalent support is necessary without which the Bank would become non-viable	(1) Upon the occurrence of any Additional Tier 1 Capital Instrument Trigger Event, that is, the CET 1 CAR drops to 5.125% or below, the Domestic Preference Shares shall be wholly or partly converted into A Shares so as to restore the CET1 CAR above the trigger point; (2) upon the occurrence of any Tier 2 Capital Instrument Trigger Event, all of the Domestic Preference Shares shall be converted into A Shares. "Tier 2 Capital Instrument Trigger Event" means either of the following circumstances (whichever is earlier): (i) the CBIRC having concluded that a conversion or write-off is necessary without which the Bank would become non-viable; or (ii) the relevant authorities having concluded that a public sector injection of capital or equivalent support is necessary without which the Bank would become non-viable	(1) Upon the occurrence of any Additional Tier 1 Capital Instrument Trigger Event, that is, the CET1 CAR drops to 5.125% or below, the Offshore Preference Shares shall be wholly or partly converted into H Shares so as to restore the CET1 CAR above the trigger point; (2) upon the occurrence of any Tier 2 Capital Instrument Trigger Event, all of the Offshore Preference Shares shall be converted into H Shares. "Tier 2 Capital Instrument Trigger Event" means either of the following circumstances (whichever is earlier): (i) the CBIRC having concluded that a conversion or write-off is necessary without which the Bank would become non-viable; or (ii) the relevant authorities having concluded that a public sector injection of capital or equivalent support is necessary without which the Bank would become non-viable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable

II UNREVIEWED SUPPLEMENTARY INFORMATION (Continued)

5 Capital adequacy ratio supplementary information (Continued)

Annex 4: Main attributes of capital instruments (Continued)

No.	Item	Common shares (A share)	Common shares (H share)	Preference shares (Domestic)	Preference shares (Domestic)	Preference shares (Offshore)	Undated capital bonds	Undated capital bonds	Undated capital bonds	Undated capital bonds	Undated capital bonds
	Dividend or interest payment (Continued)										
25	Of which: Please specify share conversion in whole or in part, if allowed	Not applicable	Not applicable	Whole/part	Whole/part	Whole/part	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
26	Of which: Please specify the method to determine the conversion price, if share conversion is allowed	Not applicable	Not applicable	The initial compulsory conversion price of the Domestic Preference Shares is the average trading price of A Shares of the Bank in the 20 trading days prior to the announcement date of the Board resolution on the Preference Shares issuance, equivalent to RMB3.62 per A Share. After the issuance of the Preference Shares, in the event of any distribution of bonus shares, recapitalization, issuance of new shares at a price lower than the market price (excluding any increase of share capital due to conversion of financing instruments convertible to ordinary shares issued by the Bank (e.g., preference shares, convertible bonds, etc.)), or rights issue for A Shares, the Bank will make an adjustment to the compulsory conversion price to reflect each of such	The initial compulsory conversion price of the Domestic Preference Shares is the average trading price of A Shares of the Bank in the 20 trading days prior to the announcement date of the Board resolution on the Preference Shares issuance, equivalent to RMB3.62 per A Share. After the issuance of the Preference Shares, in the event of any distribution of bonus shares, recapitalization, issuance of new shares at a price lower than the market price (excluding any increase of share capital due to conversion of financing instruments convertible to ordinary shares issued by the Bank (e.g., preference shares, convertible bonds, etc.)), or rights issue for A Shares, the Bank will make an adjustment to the compulsory conversion price to reflect each of such	The initial compulsory conversion price of the Offshore Preference Shares is the average trading price of H Shares of the Bank in the 20 trading days prior to the announcement date of the Board resolution on the Preference Shares issuance, equivalent to HKD3.31 per H Share. After the issuance of the Preference Shares, in the event of any distribution of bonus shares, recapitalization, issuance of new shares at a price lower than the market price (excluding any increase of share capital due to conversion of financing instruments convertible to ordinary shares issued by the Bank (e.g., preference shares, convertible bonds, etc.)), or rights issue for H Shares, the Bank will make an adjustment to the compulsory conversion price to reflect each of such	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable

5 Capital adequacy ratio supplementary information (Continued)

Annex 4: Main attributes of capital instruments (Continued)

No. Item	Common shares (A share)	Common shares (H share)	Preference shares (Domestic)	Preference shares (Domestic)	Preference shares (Offshore)	Undated capital bonds	Undated capital bonds	Undated capital bonds	Undated capital bonds	Undated capital bonds
Dividend or interest payment (Continued)										
26 Of which: Please specify the method to determine the conversion price, if share conversion is allowed (Continued)			events on a cumulative basis in the order of the occurrence of the events above, but the Bank will not make an adjustment to the compulsory conversion price to reflect distribution of cash dividends for ordinary shares	events on a cumulative basis in the order of the occurrence of the events above, but the Bank will not make an adjustment to the compulsory conversion price to reflect distribution of cash dividends for ordinary shares	events on a cumulative basis in the order of the occurrence of the events above, but the Bank will not make an adjustment to the compulsory conversion price to reflect distribution of cash dividends for ordinary shares					
27 Of which: Please specify share conversion is mandatory or not, if it is allowed	Not applicable	Not applicable	Yes	Yes	Yes	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
28 Of which: Please specify the instrument type after conversion, if allowed	Not applicable	Not applicable	A common share	A common share	H common share	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
29 Of which: Please specify the issuer of the instrument type after conversion, if allowed	Not applicable	Not applicable	Bank of China Limited	Bank of China Limited	Bank of China Limited	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
30 Write-down feature	Not applicable	Not applicable	No	No	No	Yes	Yes	Yes	Yes	Yes
31 Of which: Please specify the trigger point of write-down, if allowed	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	1. An Additional Tier 1 capital trigger event refers to the Issuer's Common Equity Tier 1 capital adequacy ratio falls to 5.125% (or below) 2. A Tier 2 capital trigger event refers to the earlier of the following events: (i) the CBIRC having decided that the Issuer would become non-viable without a write-down; (ii) any relevant authorities having	A Non-Viability Trigger Event refers to the earlier of the following events: (i) the CBIRC having decided that the Issuer would become non-viable without a write-down; (ii) any relevant authority having decided that a public sector injection of capital or equivalent support is necessary, without which the Issuer would become non-viable	A Non-Viability Trigger Event refers to the earlier of the following events: (i) the CBIRC having decided that the Issuer would become non-viable without a write-down; (ii) any relevant authority having decided that a public sector injection of capital or equivalent support is necessary, without which the Issuer would become non-viable	A Non-Viability Trigger Event refers to the earlier of the following events: (i) the CBIRC having decided that the Issuer would become non-viable without a write -down; (ii) any relevant authority having decided that a public sector injection of capital or equivalent support is necessary, without which the Issuer would become non-viable	A Non-Viability Trigger Event refers to the earlier of the following events: (i) the CBIRC having decided that the Issuer would become non-viable without a write -down; (ii) any relevant authority having decided that a public sector injection of capital or equivalent support is necessary, without which the Issuer would become non-viable

II UNREVIEWED SUPPLEMENTARY INFORMATION (Continued)

5 Capital adequacy ratio supplementary information (Continued)

Annex 4: Main attributes of capital instruments (Continued)

No.	Item	Common shares (A share)	Common shares (H share)	Preference shares (Domestic)	Preference shares (Domestic)	Preference shares (Offshore)	Undated capital bonds	Undated capital bonds	Undated capital bonds	Undated capital bonds	Undated capital bonds
	Dividend or interest payment (Continued)										
31	Of which: Please specify the trigger point of write-down, if allowed (Continued)						decided that a public sector injection of capital or equivalent support is necessary, without which the Issuer would become non-viable				
32	Of which: Please specify write-down in whole or in part, if write-down is allowed	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Write-down in part or in whole	Write-down in part or in whole	Write-down in part or in whole	Write-down in part or in whole	Write-down in part or in whole
33	Of which: Please specify the write-down is perpetual or temporary, if write-down is allowed	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Perpetual write-down	Perpetual write-down	Perpetual write-down	Perpetual write-down	Perpetual write-down
34	Of which: Please specify the book-entry value recovery mechanism, if temporary write-down	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
35	Hierarchy of claims (please specify instrument types enjoying higher priorities)	The lowest priority of all claims	The lowest priority of all claims	The lower priority behind the deposit, general debt, and subordinated debt (including tier 2 capital bond)	The lower priority behind the deposit, general debt, and subordinated debt (including tier 2 capital bond)	The lower priority behind the deposit, general debt, and subordinated debt (including tier 2 capital bond)	The lower priority behind the deposit, general debt, subordinated bond and tier 2 capital bond	The lower priority behind the deposit, general debt, subordinated bond and tier 2 capital bond	The lower priority behind the deposit, general debt, subordinated bond and tier 2 capital bond	The lower priority behind the deposit, general debt, subordinated bond and tier 2 capital bond	The lower priority behind the deposit, general debt, subordinated bond and tier 2 capital bond
36	Does the instrument contain temporary illegible attribute?	No	No	No	No	No	No	No	No	No	No
37	Of which: If yes, please specify such attribute	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable

5 Capital adequacy ratio supplementary information (Continued)

Annex 4: Main attributes of capital instruments (Continued)

No.	Item	Tier 2 capital instrument	Tier 2 capital instrument	Tier 2 capital instrument	Tier 2 capital instrument	Tier 2 capital instrument	Tier 2 capital instrument
1	Issuer	Bank of China Limited	Bank of China Limited	Bank of China Limited	Bank of China Limited	Bank of China Limited	Bank of China Limited
2	Identification code	5828.HK	1728017.IB	1728020.IB	1828006.IB	1828011.IB	1928028.IB
3	Applicable law	English law (Provisions relating to subordination shall be governed by PRC law)	PRC law	PRC law	PRC law	PRC law	PRC law
	Regulatory processing						
4	Of which: Applicable to transitional period rules specified by *Capital Rules for Commercial Banks (Provisional)*	Tier 2 capital	Tier 2 capital	Tier 2 capital	Tier 2 capital	Tier 2 capital	Tier 2 capital
5	Of which: Applicable to the rules after expiration of the transitional period specified by *Capital Rules for Commercial Banks (Provisional)*	Tier 2 capital	Tier 2 capital	Tier 2 capital	Tier 2 capital	Tier 2 capital	Tier 2 capital
6	Of which: Applicable to bank/group level	Bank and group level	Bank and group level	Bank and group level	Bank and group level	Bank and group level	Bank and group level
7	Instrument type	Eligible tier 2 capital bond	Eligible tier 2 capital bond	Eligible tier 2 capital bond	Eligible tier 2 capital bond	Eligible tier 2 capital bond	Eligible tier 2 capital bond
8	Amount attributable to regulatory capital (the last reporting day)	15,461	29,972	29,970	39,987	39,985	29,989
9	Par value of instrument	USD3.0 billion	30,000	30,000	40,000	40,000	30,000
10	Accounting treatment	Bonds issued	Bonds issued	Bonds issued	Bonds issued	Bonds issued	Bonds issued
11	Initial issuing date	2014/11/13	2017/9/26	2017/10/31	2018/9/3	2018/10/9	2019/9/20
12	Term (term or perpetual)	Term	Term	Term	Term	Term	Term
13	Of which: Original maturity date	2024/11/13	2027/9/28	2027/11/2	2028/9/5	2028/10/11	2029/9/24
14	Issuer's redemption (subject to regulatory approval)	Yes	Yes	Yes	Yes	Yes	Yes
15	Of which: Redemption date (or have redemption date) and amount	Not applicable	Subject to approval by the CBIRC, the Bank has the right to redeem all or part of the bond after 5 years from the date of issuance (i.e. 2022/9/28)	Subject to approval by the CBIRC, the Bank has the right to redeem all or part of the bond after 5 years from the date of issuance (i.e. 2022/11/2)	Subject to approval by the CBIRC, the Bank has the right to redeem all or part of the bond after 5 years from the date of issuance (i.e. 2023/9/5)	Subject to approval by the CBIRC, the Bank has the right to redeem all or part of the bond after 5 years from the date of issuance (i.e. 2023/10/11)	Subject to approval by the CBIRC, the Bank has the right to redeem all or part of the bond after 5 years from the date of issuance (i.e. 2024/9/24)

II UNREVIEWED SUPPLEMENTARY INFORMATION (Continued)

5 Capital adequacy ratio supplementary information (Continued)

Annex 4: Main attributes of capital instruments (Continued)

No.	Item	Tier 2 capital instrument	Tier 2 capital instrument	Tier 2 capital instrument	Tier 2 capital instrument	Tier 2 capital instrument	Tier 2 capital instrument
Regulatory processing (Continued)							
16	Of which: Subsequent redemption date (if any)	Subject to the Redemption Conditions, the bonds are redeemable at the option of the Issuer at their outstanding principal amount, together with accrued but unpaid interest, if a change in the related regulations occurs at any time so long as the bonds are outstanding which has the effect that the bonds, after having qualified as such, will fully be disqualified from the Tier 2 Capital of the Issuer under the related regulations provided that the Issuer shall obtain the prior written consent and satisfy certain other conditions	Subject to the Redemption Conditions, the bonds are redeemable at the option of the Issuer at their outstanding principal amount, together with accrued but unpaid interest, if a change in the related regulations occurs at any time so long as the bonds are outstanding which has the effect that the bonds, after having qualified as such, will fully be disqualified from the Tier 2 Capital of the Issuer under the related regulations provided that the Issuer shall obtain the prior written consent and satisfy certain other conditions	Subject to the Redemption Conditions, the bonds are redeemable at the option of the Issuer at their outstanding principal amount, together with accrued but unpaid interest, if a change in the related regulations occurs at any time so long as the bonds are outstanding which has the effect that the bonds, after having qualified as such, will fully be disqualified from the Tier 2 Capital of the Issuer under the related regulations provided that the Issuer shall obtain the prior written consent and satisfy certain other conditions	Subject to the Redemption Conditions, the bonds are redeemable at the option of the Issuer at their outstanding principal amount, together with accrued but unpaid interest, if a change in the related regulations occurs at any time so long as the bonds are outstanding which has the effect that the bonds, after having qualified as such, will fully be disqualified from the Tier 2 Capital of the Issuer under the related regulations provided that the Issuer shall obtain the prior written consent and satisfy certain other conditions	Subject to the Redemption Conditions, the bonds are redeemable at the option of the Issuer at their outstanding principal amount, together with accrued but unpaid interest, if a change in the related regulations occurs at any time so long as the bonds are outstanding which has the effect that the bonds, after having qualified as such, will fully be disqualified from the Tier 2 Capital of the Issuer under the related regulations provided that the Issuer shall obtain the prior written consent and satisfy certain other conditions	Subject to the Redemption Conditions, the bonds are redeemable at the option of the Issuer at their outstanding principal amount, together with accrued but unpaid interest, if a change in the related regulations occurs at any time so long as the bonds are outstanding which has the effect that the bonds, after having qualified as such, will fully be disqualified from the Tier 2 Capital of the Issuer under the related regulations provided that the Issuer shall obtain the prior written consent and satisfy certain other conditions

5 Capital adequacy ratio supplementary information (Continued)

Annex 4: Main attributes of capital instruments (Continued)

No.	Item	Tier 2 capital instrument	Tier 2 capital instrument	Tier 2 capital instrument	Tier 2 capital instrument	Tier 2 capital instrument	Tier 2 capital instrument
Dividend or interest payment							
17	Of which: Fixed or floating dividend or interest payment	Fixed	Fixed	Fixed	Fixed	Fixed	Fixed
18	Of which: Coupon rate and relevant indicators	5.00%	4.45%	4.45%	4.86%	4.84%	3.98%
19	Of which: Existence of dividend brake mechanism	No	No	No	No	No	No
20	Of which: Discretion to cancel dividend or interest payment	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
21	Of which: Existence of redemption incentive mechanism	No	No	No	No	No	No
22	Of which: Cumulative or noncumulative	Noncumulative	Noncumulative	Noncumulative	Noncumulative	Noncumulative	Noncumulative
23	Conversion into shares	No	No	No	No	No	No
24	Of which: Please specify the trigger condition for share conversion, if allowed	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
25	Of which: Please specify share conversion in whole or in part, if allowed	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
26	Of which: Please specify the method to determine the conversion price, if share conversion is allowed	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
27	Of which: Please specify share conversion is mandatory or not, if it is allowed	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
28	Of which: Please specify the instrument type after conversion, if allowed	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
29	Of which: Please specify the issuer of the instrument type after conversion, if allowed	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
30	Write-down feature	Yes	Yes	Yes	Yes	Yes	Yes

II UNREVIEWED SUPPLEMENTARY INFORMATION (Continued)

5 Capital adequacy ratio supplementary information (Continued)

Annex 4: Main attributes of capital instruments (Continued)

No.	Item	Tier 2 capital instrument	Tier 2 capital instrument	Tier 2 capital instrument	Tier 2 capital instrument	Tier 2 capital instrument	Tier 2 capital instrument
	Dividend or interest payment (Continued)						
31	Of which: Please specify the trigger point of write-down, if allowed	"Non-Viability Event" means the occurrence of the earlier of either: (i) the CBIRC having decided that a write-down is necessary, without which the Issuer would become non-viable; or (ii) any relevant authority having decided that a public sector injection of capital or equivalent support is necessary, without which the Issuer would become non-viable	"Non-Viability Event" means the occurrence of the earlier of either: (i) the CBIRC having decided that a write-down is necessary, without which the Issuer would become non-viable; or (ii) any relevant authority having decided that a public sector injection of capital or equivalent support is necessary, without which the Issuer would become non-viable	"Non-Viability Event" means the occurrence of the earlier of either: (i) the CBIRC having decided that a write-down is necessary, without which the Issuer would become non-viable; or (ii) any relevant authority having decided that a public sector injection of capital or equivalent support is necessary, without which the Issuer would become non-viable	"Non-Viability Event" means the occurrence of the earlier of either: (i) the CBIRC having decided that a write-down is necessary, without which the Issuer would become non-viable; or (ii) any relevant authority having decided that a public sector injection of capital or equivalent support is necessary, without which the Issuer would become non-viable	"Non-Viability Event" means the occurrence of the earlier of either: (i) the CBIRC having decided that a write-down is necessary, without which the Issuer would become non-viable; or (ii) any relevant authority having decided that a public sector injection of capital or equivalent support is necessary, without which the Issuer would become non-viable	"Non-Viability Event" means the occurrence of the earlier of either: (i) the CBIRC having decided that a write-down is necessary, without which the Issuer would become non-viable; or (ii) any relevant authority having decided that a public sector injection of capital or equivalent support is necessary, without which the Issuer would become non-viable
32	Of which: Please specify write-down in whole or in part, if write-down is allowed	Write-down in part or in whole	Write-down in part or in whole	Write-down in part or in whole	Write-down in part or in whole	Write-down in part or in whole	Write-down in part or in whole
33	Of which: Please specify the write-down is perpetual or temporary, if write-down is allowed	Perpetual write-down	Perpetual write-down	Perpetual write-down	Perpetual write-down	Perpetual write-down	Perpetual write-down
34	Of which: Please specify the book-entry value recovery mechanism, if temporary write-down	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
35	Hierarchy of claims (please specify instrument types enjoying higher priorities)	The lower priority behind the depositor and general creditor	The lower priority behind the depositor and general creditor	The lower priority behind the depositor and general creditor	The lower priority behind the depositor and general creditor	The lower priority behind the depositor and general creditor	The lower priority behind the depositor and general creditor
36	Does the instrument contain temporary illegible attribute?	No	No	No	No	No	No
37	Of which: If yes, please specify such attribute	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable

5 Capital adequacy ratio supplementary information (Continued)

Annex 4: Main attributes of capital instruments (Continued)

No.	Item	Tier 2 capital instrument	Tier 2 capital instrument	Tier 2 capital instrument	Tier 2 capital instrument	Tier 2 capital instrument	Tier 2 capital instrument
1	Issuer	Bank of China Limited	Bank of China Limited	Bank of China Limited	Bank of China Limited	Bank of China Limited	Bank of China Limited
2	Identification code	1928029.IB	1928033.IB	2028038.IB	2028039.IB	2128008.IB	2128009.IB
3	Applicable law	PRC law	PRC law	PRC law	PRC law	PRC law	PRC law
Regulatory processing							
4	Of which: Applicable to transitional period rules specified by *Capital Rules for Commercial Banks (Provisional)*	Tier 2 capital	Tier 2 capital	Tier 2 capital	Tier 2 capital	Tier 2 capital	Tier 2 capital
5	Of which: Applicable to the rules after expiration of the transitional period specified by *Capital Rules for Commercial Banks (Provisional)*	Tier 2 capital	Tier 2 capital	Tier 2 capital	Tier 2 capital	Tier 2 capital	Tier 2 capital
6	Of which: Applicable to bank/group level	Bank and group level	Bank and group level	Bank and group level	Bank and group level	Bank and group level	Bank and group level
7	Instrument type	Eligible tier 2 capital bond	Eligible tier 2 capital bond	Eligible tier 2 capital bond	Eligible tier 2 capital bond	Eligible tier 2 capital bond	Eligible tier 2 capital bond
8	Amount attributable to regulatory capital (the last reporting day)	9,996	29,988	59,977	14,994	14,994	9,996
9	Par value of instrument	10,000	30,000	60,000	15,000	15,000	10,000
10	Accounting treatment	Bonds issued	Bonds issued	Bonds issued	Bonds issued	Bonds issued	Bonds issued
11	Initial issuing date	2019/9/20	2019/11/20	2020/9/17	2020/9/17	2021/3/17	2021/3/17
12	Term (term or perpetual)	Term	Term	Term	Term	Term	Term
13	Of which: Original maturity date	2034/9/24	2029/11/22	2030/9/21	2035/9/21	2031/3/19	2036/3/19
14	Issuer's redemption (subject to regulatory approval)	Yes	Yes	Yes	Yes	Yes	Yes
15	Of which: Redemption date (or have redemption date) and amount	Subject to approval by the CBIRC, the Bank has the right to redeem all or part of the bond after 10 years from the date of issuance (i.e. 2029/9/24)	Subject to approval by the CBIRC, the Bank has the right to redeem all or part of the bond after 5 years from the date of issuance (i.e. 2024/11/22)	Subject to approval by the CBIRC, the Bank has the right to redeem all or part of the bond after 5 years from the date of issuance (i.e. 2025/9/21)	Subject to approval by the CBIRC, the Bank has the right to redeem all or part of the bond after 10 years from the date of issuance (i.e. 2030/9/21)	Subject to approval by the CBIRC, the Bank has the right to redeem all or part of the bond after 5 years from the date of issuance (i.e. 2026/3/19)	Subject to approval by the CBIRC, the Bank has the right to redeem all or part of the bond after 10 years from the date of issuance (i.e. 2031/3/19)

II UNREVIEWED SUPPLEMENTARY INFORMATION (Continued)

5 Capital adequacy ratio supplementary information (Continued)

Annex 4: Main attributes of capital instruments (Continued)

No.	Item	Tier 2 capital instrument	Tier 2 capital instrument	Tier 2 capital instrument	Tier 2 capital instrument	Tier 2 capital instrument	Tier 2 capital instrument
Regulatory processing (Continued)							
16	Of which: Subsequent redemption date (if any)	Subject to the Redemption Conditions, the bonds are redeemable at the option of the Issuer at their outstanding principal amount, together with accrued but unpaid interest, if a change in the related regulations occurs at any time so long as the bonds are outstanding which has the effect that the bonds, after having qualified as such, will fully be disqualified from the Tier 2 Capital of the Issuer under the related regulations provided that the Issuer shall obtain the prior written consent and satisfy certain other conditions	Subject to the Redemption Conditions, the bonds are redeemable at the option of the Issuer at their outstanding principal amount, together with accrued but unpaid interest, if a change in the related regulations occurs at any time so long as the bonds are outstanding which has the effect that the bonds, after having qualified as such, will fully be disqualified from the Tier 2 Capital of the Issuer under the related regulations provided that the Issuer shall obtain the prior written consent and satisfy certain other conditions	Subject to the Redemption Conditions, the bonds are redeemable at the option of the Issuer at their outstanding principal amount, together with accrued but unpaid interest, if a change in the related regulations occurs at any time so long as the bonds are outstanding which has the effect that the bonds, after having qualified as such, will fully be disqualified from the Tier 2 Capital of the Issuer under the related regulations provided that the Issuer shall obtain the prior written consent and satisfy certain other conditions	Subject to the Redemption Conditions, the bonds are redeemable at the option of the Issuer at their outstanding principal amount, together with accrued but unpaid interest, if a change in the related regulations occurs at any time so long as the bonds are outstanding which has the effect that the bonds, after having qualified as such, will fully be disqualified from the Tier 2 Capital of the Issuer under the related regulations provided that the Issuer shall obtain the prior written consent and satisfy certain other conditions	Subject to the Redemption Conditions, the bonds are redeemable at the option of the Issuer at their outstanding principal amount, together with accrued but unpaid interest, if a change in the related regulations occurs at any time so long as the bonds are outstanding which has the effect that the bonds, after having qualified as such, will fully be disqualified from the Tier 2 Capital of the Issuer under the related regulations provided that the Issuer shall obtain the prior written consent and satisfy certain other conditions	Subject to the Redemption Conditions, the bonds are redeemable at the option of the Issuer at their outstanding principal amount, together with accrued but unpaid interest, if a change in the related regulations occurs at any time so long as the bonds are outstanding which has the effect that the bonds, after having qualified as such, will fully be disqualified from the Tier 2 Capital of the Issuer under the related regulations provided that the Issuer shall obtain the prior written consent and satisfy certain other conditions

5 Capital adequacy ratio supplementary information (Continued)

Annex 4: Main attributes of capital instruments (Continued)

No.	Item	Tier 2 capital instrument	Tier 2 capital instrument	Tier 2 capital instrument	Tier 2 capital instrument	Tier 2 capital instrument	Tier 2 capital instrument
	Dividend or interest payment						
17	Of which: Fixed or floating dividend or interest payment	Fixed	Fixed	Fixed	Fixed	Fixed	Fixed
18	Of which: Coupon rate and relevant indicators	4.34%	4.01%	4.20%	4.47%	4.15%	4.38%
19	Of which: Existence of dividend brake mechanism	No	No	No	No	No	No
20	Of which: Discretion to cancel dividend or interest payment	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
21	Of which: Existence of redemption incentive mechanism	No	No	No	No	No	No
22	Of which: Cumulative or noncumulative	Noncumulative	Noncumulative	Noncumulative	Noncumulative	Noncumulative	Noncumulative
23	Conversion into shares	No	No	No	No	No	No
24	Of which: Please specify the trigger condition for share conversion, if allowed	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
25	Of which: Please specify share conversion in whole or in part, if allowed	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
26	Of which: Please specify the method to determine the conversion price, if share conversion is allowed	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
27	Of which: Please specify share conversion is mandatory or not, if it is allowed	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
28	Of which: Please specify the instrument type after conversion, if allowed	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
29	Of which: Please specify the issuer of the instrument type after conversion, if allowed	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
30	Write-down feature	Yes	Yes	Yes	Yes	Yes	Yes

II UNREVIEWED SUPPLEMENTARY INFORMATION (Continued)

5 Capital adequacy ratio supplementary information (Continued)

Annex 4: Main attributes of capital instruments (Continued)

No.	Item	Tier 2 capital instrument	Tier 2 capital instrument	Tier 2 capital instrument	Tier 2 capital instrument	Tier 2 capital instrument	Tier 2 capital instrument
Dividend or interest payment (Continued)							
31	Of which: Please specify the trigger point of write-down, if allowed	"Non-Viability Event" means the occurrence of the earlier of either: (i) the CBIRC having decided that a write-down is necessary, without which the Issuer would become non-viable; or (ii) any relevant authority having decided that a public sector injection of capital or equivalent support is necessary, without which the Issuer would become non-viable	"Non-Viability Event" means the occurrence of the earlier of either: (i) the CBIRC having decided that a write-down is necessary, without which the Issuer would become non-viable; or (ii) any relevant authority having decided that a public sector injection of capital or equivalent support is necessary, without which the Issuer would become non-viable	"Non-Viability Event" means the occurrence of the earlier of either: (i) the CBIRC having decided that a write-down is necessary, without which the Issuer would become non-viable; or (ii) any relevant authority having decided that a public sector injection of capital or equivalent support is necessary, without which the Issuer would become non-viable	"Non-Viability Event" means the occurrence of the earlier of either: (i) the CBIRC having decided that a write-down is necessary, without which the Issuer would become non-viable; or (ii) any relevant authority having decided that a public sector injection of capital or equivalent support is necessary, without which the Issuer would become non-viable	"Non-Viability Event" means the occurrence of the earlier of either: (i) the CBIRC having decided that a write-down is necessary, without which the Issuer would become non-viable; or (ii) any relevant authority having decided that a public sector injection of capital or equivalent support is necessary, without which the Issuer would become non-viable	"Non-Viability Event" means the occurrence of the earlier of either: (i) the CBIRC having decided that a write-down is necessary, without which the Issuer would become non-viable; or (ii) any relevant authority having decided that a public sector injection of capital or equivalent support is necessary, without which the Issuer would become non-viable
32	Of which: Please specify write-down in whole or in part, if write-down is allowed	Write-down in part or in whole	Write-down in part or in whole	Write-down in part or in whole	Write-down in part or in whole	Write-down in part or in whole	Write-down in part or in whole
33	Of which: Please specify the write-down is perpetual or temporary, if write-down is allowed	Perpetual write-down	Perpetual write-down	Perpetual write-down	Perpetual write-down	Perpetual write-down	Perpetual write-down
34	Of which: Please specify the book-entry value recovery mechanism, if temporary write-down	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
35	Hierarchy of claims (please specify instrument types enjoying higher priorities)	The lower priority behind the depositor and general creditor	The lower priority behind the depositor and general creditor	The lower priority behind the depositor and general creditor	The lower priority behind the depositor and general creditor	The lower priority behind the depositor and general creditor	The lower priority behind the depositor and general creditor
36	Does the instrument contain temporary illegible attribute?	No	No	No	No	No	No
37	Of which: If yes, please specify such attribute	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable

II UNREVIEWED SUPPLEMENTARY INFORMATION (Continued)

6 Leverage ratio

The leverage ratios of the Group calculated in accordance with the *Administrative Measures for the Leverage Ratio of Commercial Banks (Revised)* and the *Capital Rules for Commercial Banks (Provisional)* are as follows [(1)]:

	2021		2020	
	As at 30 June	**As at 31 March**	**As at 31 December**	**As at 30 September**
Net tier 1 capital	**2,058,220**	**2,014,251**	1,992,621	1,940,169
Adjusted on- and off-balance sheet assets	**27,861,068**	**27,344,497**	25,880,515	26,136,582
Leverage ratio	**7.39%**	**7.37%**	7.70%	7.42%

No.	Items	As at 30 June 2021
1	Total consolidated assets	**26,317,327**
2	Adjustments that are consolidated for accounting purposes but outside the scope of regulatory consolidation	**(432,688)**
3	Adjustments for fiduciary assets	**–**
4	Adjustments for derivative financial instruments	**137,360**
5	Adjustments for securities financing transactions	**118,629**
6	Adjustments for off-balance sheet exposures	**1,745,136**
7	Other adjustments	**(24,696)**
8	Adjusted on- and off-balance sheet assets	**27,861,068**

(Amounts in millions of Renminbi, unless otherwise stated)

II UNREVIEWED SUPPLEMENTARY INFORMATION (Continued)

6 Leverage ratio (Continued)

No.	Items	As at 30 June 2021
1	On-balance sheet assets (excluding derivatives and securities financing transactions)	**25,206,684**
2	Less: Tier 1 capital deductions	**(24,696)**
3	**Total on-balance sheet exposures (excluding derivatives and SFTs)**	**25,181,988**
4	Replacement cost associated with all derivative transactions (i.e. net of eligible cash variation margin)	**116,156**
5	Add-on amounts for potential future exposure associated with all derivative transactions	**137,236**
6	Gross-up for derivative collateral provided where deducted from the balance sheet assets	**–**
7	Less: Deductions of receivable assets for cash variation margin provided in derivative transactions	**–**
8	Less: Exempted CCP leg of client-cleared trade exposures	**–**
9	Adjusted effective notional amount of written credit derivatives	**132**
10	Less: Deductible amounts for written credit derivatives	**(8)**
11	**Total derivative exposures**	**253,516**
12	Accounting balance for securities financing transaction assets	**561,799**
13	Less: Deducted amounts for securities financing transaction assets	**–**
14	Counterparty credit risk exposure for securities financing transaction assets	**118,629**
15	Agent transaction exposures	**–**
16	**Balance of assets in securities financing transactions**	**680,428**
17	Off-balance sheet items	**5,173,409**
18	Less: Adjustments for conversion to credit equivalent amounts	**(3,428,273)**
19	**Adjusted off-balance sheet exposures**	**1,745,136**
20	Net tier 1 capital	**2,058,220**
21	Adjusted on- and off-balance sheet exposures	**27,861,068**
22	**Leverage ratio**	**7.39%**

(1) When calculating the consolidated leverage ratio, BOCG Investment, BOC Insurance, BOCG Insurance and BOCG Life were excluded from the scope of consolidation in accordance with the *Capital Rules for Commercial Banks (Provisional)*.

Independent Auditor's Report

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

To the shareholders of Bank of China Limited
(Established in the People's Republic of China with limited liability)

Opinion

We have audited the consolidated financial statements of Bank of China Limited (the "Bank") and its subsidiaries (the "Group") set out on pages 164 to 318, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 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") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

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

Key Audit Matters

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

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

Independent Auditor's Report

Key Audit Matters (Continued)

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of loans and advances to customers	
The Group uses a number of models and assumptions in the measurement of expected credit losses, for example: • Significant increase in credit risk — The selection of criteria for identifying significant increase in credit risk is highly dependent on judgement and may have a significant impact on the expected credit losses for loans with longer remaining periods to maturity. • Models and parameters — Inherently complex models are used to measure expected credit losses. Modelled parameters have numerous inputs and the parameter estimation involves many judgements and assumptions. • Forward-looking information — Expert judgement is used to create macroeconomic forecasts and to consider the impact on expected credit losses under multiple economic scenarios given different weights. • Individual impairment assessment — Identifying credit impaired loans requires consideration of a range of factors, and individual impairment assessments are dependent upon estimates of future cash flows. Since loan impairment assessment involves many judgements and assumptions, and in view of the significance of the amount (as at 31 December 2020, gross loans and advances to customers amounted to RMB14,216,477 million, representing 58% of total assets, and impairment allowance for loans and advances to customers amounted to RMB368,619 million), impairment of loans and advances is considered a key audit matter. Relevant disclosures are included in Note II.4, Note III.1, Note V.17 and Note VI.3 to the consolidated financial statements.	We evaluated and tested the effectiveness of design and implementation of key controls related to the credit approval process, post approval credit management, loan grading system, collateral monitoring, loans with deferred principal and interest payments as well as loan impairment assessment, including relevant data quality and information systems. We adopted a risk-based sampling approach in our loan review procedures. We assessed the debtors' repayment capacity and evaluated the Group's loan grading, taking into consideration post-lending investigation reports, debtors' financial information, collateral valuation reports and other available information. With the support of our internal credit risk modelling experts, we evaluated and tested the important parameters of the expected credit loss model, management's major judgements and related assumptions, mainly focusing on the following aspects: 1. Expected credit loss model: • In response to the macroeconomic changes, the COVID-19 pandemic implications and the supporting policies from government authorities, we assessed the reasonableness of the expected credit loss model methodology and related parameters, including probability of default, loss given default, exposure at default, and significant increase in credit risk. • Assessed the forward-looking information management used to determine expected credit losses, including the forecasts of macroeconomic variables and the assumptions of multiple macroeconomic scenarios. • Evaluated the models and the related assumptions used in individual impairment assessment and analysed the amount, timing and likelihood of management's estimated future cash flows, especially cash flows from collateral.

Independent Auditor's Report

Key Audit Matters (Continued)

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of loans and advances to customers (Continued)	
	2. Design and operating effectiveness of key controls: • Evaluated and tested the data and key controls used to determine expected credit losses, including loan business data, internal credit rating data, macroeconomic data, as well as impairment system computational logic, inputs and interfaces among relevant systems. • Evaluated and tested key controls over expected credit loss models, including approval of model changes, ongoing monitoring model performance, model validation and parameter calibration. We evaluated and tested the design and operating effectiveness of internal controls related to disclosures of credit risk and impairment allowance.
Valuation of financial instruments	
The Group has applied valuation techniques to determine the fair value of financial instruments that are not quoted in active markets including bonds, funds, equity investments and over-the-counter derivatives. These valuation techniques, particularly those requiring significant unobservable inputs, usually involve subjective judgement and assumptions. Valuation results can vary significantly when different valuation techniques and assumptions are applied. As at 31 December 2020, financial instruments measured at fair value of the Group mainly included RMB2,612,339 million in financial investments, representing 11% of total assets. Financial instruments which require significant unobservable inputs in estimating fair value, and hence categorised within level 3 of the fair value hierarchy, involve higher uncertainty in their valuation. As at 31 December 2020, 5% of financial investments measured at fair value were categorised within level 3. Due to the significance of financial instruments measured at fair value, and the uncertainty in valuation involving significant judgement for unlisted equity and fund investments as well as illiquid asset-backed securities, valuation of these financial instruments is considered a key audit matter. Relevant disclosures are included in Note III.2 and Note VI.6 to the consolidated financial statements.	We evaluated and tested the design and operating effectiveness of key controls related to the valuation of financial instruments, independent price verification, and independent model validation and approval. We evaluated the valuation techniques, inputs and assumptions through comparison with the valuation techniques commonly used in the markets, validation of observable inputs using external market data, and comparison with valuation outcomes obtained from various pricing sources. For valuations which used significant unobservable inputs, such as unlisted equity investments and private equity fund investments, we involved our internal valuation specialists in assessing the models used, re-performing independent valuations, and analysing the sensitivities of valuation results to key inputs and assumptions. We evaluated and tested the design and operating effectiveness of internal controls related to disclosures of fair value.

Independent Auditor’s Report

Key Audit Matters (Continued)

Key audit matter	How our audit addressed the key audit matter
Structured entities	
The Group has interests in various structured entities, such as bank wealth management products, funds and trust plans, in conducting financial investments, asset management business and credit assets transfers. The Group determines whether or not to consolidate these structured entities based on the assessment of whether the Group has control taking into consideration the power arising from rights, variable returns, and the link between power and returns. The assessment of the Group’s control over structured entities involves significant judgement on factors such as the purpose and design of structured entities, its ability to direct the relevant activities, direct and indirect beneficial interests and returns, performance fee, remuneration and exposure to loss from providing credit enhancement or liquidity support. Due to the significance of the unconsolidated structured entities and the complexity of judgement exercised by management, consolidation or non-consolidation of structured entities is considered a key audit matter. Relevant disclosures are included in Note III.7 and Note V.46 to the consolidated financial statements.	We evaluated and tested the design and operating effectiveness of the key controls related to the Group’s assessment of whether it controls a structured entity. We assessed the Group’s analysis and conclusions on whether or not it controls structured entities based on the Group’s analysis on its power over structured entities, and the magnitude and variability of variable returns from its involvement with structured entities. We also assessed whether the Group has legal or constructive obligation to absorb any loss of structured entities by reviewing relevant term sheets, and whether the Group has provided liquidity support or credit enhancement to structured entities, as well as the fairness of transactions between the Group and structured entities. We evaluated and tested the design and operating effectiveness of internal controls related to disclosures of unconsolidated structured entities.

Independent Auditor's Report

Other Information included in the Annual Report

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

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

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

Responsibilities of the Directors for the Consolidated Financial Statements

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Independent Auditor's Report

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

Ernst & Young
Certified Public Accountants

Hong Kong
30 March 2021

Consolidated Financial Statements

CONTENTS

Consolidated Financial Statements (Continued)

CONTENTS (Continued)

Consolidated Income Statement

For the year ended 31 December 2020 (Amount in millions of Renminbi, unless otherwise stated)

	Note	Year ended 31 December	
		2020	2019
Interest income	V.1	**760,070**	758,007
Interest expense	V.1	**(344,152)**	(367,957)
Net interest income		**415,918**	390,050
Fee and commission income	V.2	**88,640**	88,099
Fee and commission expense	V.2	**(13,118)**	(14,287)
Net fee and commission income		**75,522**	73,812
Net trading gains	V.3	**8,055**	28,563
Net gains on transfers of financial asset	V.4	**9,547**	3,477
Other operating income	V.5	**58,605**	54,108
Operating income		**567,647**	550,010
Operating expenses	V.6	**(202,411)**	(198,269)
Impairment losses on assets	V.9	**(119,016)**	(102,153)
Operating profit		**246,220**	249,588
Share of results of associates and joint ventures	V.19	**158**	1,057
Profit before income tax		**246,378**	250,645
Income tax expense	V.10	**(41,282)**	(48,754)
Profit for the year		**205,096**	201,891
Attributable to:			
Equity holders of the Bank		**192,870**	187,405
Non-controlling interests		**12,226**	14,486
		205,096	201,891
Earnings per share (in RMB)	V.11		
— Basic		**0.61**	0.61
— Diluted		**0.61**	0.61

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

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

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2020 (Amount in millions of Renminbi, unless otherwise stated)

	Note	Year ended 31 December 2020	2019
Profit for the year		**205,096**	201,891
Other comprehensive income:	V.12		
Items that will not be reclassified to profit or loss			
— Actuarial gains on defined benefit plans		**101**	13
— Changes in fair value on investments in equity instruments designated at fair value through other comprehensive income		**(651)**	2,146
— Other		**10**	(69)
Subtotal		**(540)**	2,090
Items that may be reclassified subsequently to profit or loss			
— Changes in fair value on investments in debt instruments measured at fair value through other comprehensive income		**(2,976)**	11,919
— Allowance for credit losses on investments in debt instruments measured at fair value through other comprehensive income		**3,084**	515
— Share of other comprehensive income of associates and joint ventures accounted for using the equity method		**(130)**	(440)
— Exchange differences from the translation of foreign operations		**(21,549)**	7,089
— Other		**(751)**	602
Subtotal		**(22,322)**	19,685
Other comprehensive income for the year, net of tax		**(22,862)**	21,775
Total comprehensive income for the year		**182,234**	223,666
Total comprehensive income attributable to:			
Equity holders of the Bank		**177,424**	205,601
Non-controlling interests		**4,810**	18,065
		182,234	223,666

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

Consolidated Statement of Financial Position

As at 31 December 2020 (Amount in millions of Renminbi, unless otherwise stated)

		As at 31 December	
	Note	**2020**	2019
ASSETS			
Cash and due from banks and other financial institutions	V.13	**803,145**	565,467
Balances with central banks	V.14	**2,076,840**	2,078,809
Placements with and loans to banks and other financial institutions	V.15	**939,320**	898,959
Government certificates of indebtedness for bank notes issued	V.26	**168,608**	155,466
Precious metals		**223,313**	206,210
Derivative financial assets	V.16	**171,738**	93,335
Loans and advances to customers, net	V.17	**13,848,304**	12,743,425
Financial investments	V.18	**5,591,117**	5,514,062
— financial assets at fair value through profit or loss		**504,549**	518,250
— financial assets at fair value through other comprehensive income		**2,107,790**	2,218,129
— financial assets at amortised cost		**2,978,778**	2,777,683
Investments in associates and joint ventures	V.19	**33,508**	23,210
Property and equipment	V.20	**248,589**	244,540
Investment properties	V.21	**22,065**	23,108
Deferred income tax assets	V.35	**58,916**	44,029
Other assets	V.22	**217,196**	179,124
Total assets		**24,402,659**	22,769,744

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

Consolidated Statement of Financial Position (Continued)

As at 31 December 2020 (Amount in millions of Renminbi, unless otherwise stated)

	Note	As at 31 December	
		2020	2019
LIABILITIES			
Due to banks and other financial institutions	V.24	**1,917,003**	1,668,046
Due to central banks	V.25	**887,811**	846,277
Bank notes in circulation	V.26	**168,751**	155,609
Placements from banks and other financial institutions	V.27	**411,949**	639,675
Financial liabilities held for trading	V.28	**17,912**	19,475
Derivative financial liabilities	V.16	**212,052**	90,060
Due to customers	V.29	**16,879,171**	15,817,548
Bonds issued	V.30	**1,244,403**	1,096,087
Other borrowings	V.31	**26,034**	28,011
Current tax liabilities	V.32	**55,665**	59,102
Retirement benefit obligations	V.33	**2,199**	2,533
Deferred income tax liabilities	V.35	**6,499**	5,452
Other liabilities	V.36	**410,373**	365,173
Total liabilities		**22,239,822**	20,793,048
EQUITY			
Capital and reserves attributable to equity holders of the Bank			
Share capital	V.37.1	**294,388**	294,388
Other equity instruments	V.37.4	**277,490**	199,893
Capital reserve	V.37.2	**135,973**	136,012
Treasury shares	V.37.3	**(8)**	(7)
Other comprehensive income	V.12	**4,309**	19,613
Statutory reserves	V.38.1	**193,438**	174,762
General and regulatory reserves	V.38.2	**267,981**	250,100
Undistributed profits	V.38	**864,848**	776,940
		2,038,419	1,851,701
Non-controlling interests	V.39	**124,418**	124,995
Total equity		**2,162,837**	1,976,696
Total equity and liabilities		**24,402,659**	22,769,744

Approved and authorised for issue by the Board of Directors on 30 March 2021.

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

LIU Liange
Director

WANG Wei
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2020 (Amount in millions of Renminbi, unless otherwise stated)

		Attributable to equity holders of the Bank									
	Note	Share capital	Other equity instruments	Capital reserve	Other comprehensive income	Statutory reserves	General and regulatory reserves	Undistributed profits	Treasury shares	Non-controlling interests	Total
As at 1 January 2020		294,388	199,893	136,012	19,613	174,762	250,100	776,940	(7)	124,995	1,976,696
Total comprehensive income	V.12	–	–	–	(15,446)	–	–	192,870	–	4,810	182,234
Appropriation to statutory reserves	V.38.1	–	–	–	–	18,676	–	(18,676)	–	–	–
Appropriation to general and regulatory reserves	V.38.2	–	–	–	–	–	17,881	(17,881)	–	–	–
Dividends	V.38.3	–	–	–	–	–	–	(68,257)	–	(6,982)	(75,239)
Net change in treasury shares	V.37.3	–	–	–	–	–	–	–	(1)	–	(1)
Capital contribution by non-controlling shareholders		–	–	–	–	–	–	–	–	1,358	1,358
Capital contribution and reduction by other equity instruments holders	V.37.4	–	77,597	(37)	–	–	–	–	–	–	77,560
Other comprehensive income transferred to retained earnings		–	–	–	142	–	–	(142)	–	–	–
Other		–	–	(2)	–	–	–	(6)	–	237	229
As at 31 December 2020		294,388	277,490	135,973	4,309	193,438	267,981	864,848	(8)	124,418	2,162,837

		Attributable to equity holders of the Bank									
	Note	Share capital	Other equity instruments	Capital reserve	Other comprehensive income	Statutory reserves	General and regulatory reserves	Undistributed profits	Treasury shares	Non-controlling interests	Total
As at 1 January 2019		294,388	99,714	142,135	1,417	157,464	231,525	686,405	(68)	112,417	1,725,397
Total comprehensive income	V.12	–	–	–	18,196	–	–	187,405	–	18,065	223,666
Appropriation to statutory reserves	V.38.1	–	–	–	–	17,298	–	(17,298)	–	–	–
Appropriation to general and regulatory reserves	V.38.2	–	–	–	–	–	18,575	(18,575)	–	–	–
Dividends	V.38.3	–	–	–	–	–	–	(60,993)	–	(6,794)	(67,787)
Net change in treasury shares	V.37.3	–	–	–	–	–	–	–	61	–	61
Capital contribution by non-controlling shareholders		–	–	(22)	–	–	–	–	–	1,380	1,358
Capital contribution and reduction by other equity instruments holders		–	100,179	(6,205)	–	–	–	–	–	–	93,974
Other		–	–	104	–	–	–	(4)	–	(73)	27
As at 31 December 2019		294,388	199,893	136,012	19,613	174,762	250,100	776,940	(7)	124,995	1,976,696

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2020 (Amount in millions of Renminbi, unless otherwise stated)

	Note	Year ended 31 December 2020	2019
Cash flows from operating activities			
Profit before income tax		**246,378**	250,645
Adjustments:			
Impairment losses on assets		**119,016**	102,153
Depreciation of property and equipment and right-of-use assets		**22,441**	21,136
Amortisation of intangible assets and other assets		**5,065**	4,219
Net gains on disposal of property and equipment, intangible assets and other long-term assets		**(1,246)**	(1,089)
Net gains on disposal of investments in subsidiaries, associates and joint ventures		**(202)**	(91)
Share of results of associates and joint ventures		**(158)**	(1,057)
Interest income arising from financial investments		**(150,553)**	(155,126)
Dividends arising from investment securities		**(507)**	(388)
Net gains on financial investments		**(8,486)**	(1,981)
Interest expense arising from bonds issued		**35,719**	30,942
Accreted interest on impaired loans		**(1,236)**	(1,497)
Interest expense arising from lease liabilities		**829**	876
Net changes in operating assets and liabilities:			
Net decrease in balances with central banks		**47,092**	64,656
Net increase in due from and placements with and loans to banks and other financial institutions		**(206,736)**	(144,184)
Net increase in precious metals		**(17,061)**	(25,019)
Net increase in loans and advances to customers		**(1,204,492)**	(1,322,755)
Net increase in other assets		**(4,050)**	(184,386)
Net increase/(decrease) in due to banks and other financial institutions		**250,181**	(60,531)
Net increase/(decrease) in due to central banks		**43,963**	(59,590)
Net (decrease)/increase in placements from banks and other financial institutions		**(226,873)**	27,391
Net increase in due to customers		**1,043,998**	932,931
Net decrease in other borrowings		**(1,977)**	(4,750)
Net increase in other liabilities		**140,613**	70,573
Cash inflow/(outflow) from operating activities		**131,718**	(456,922)
Income tax paid		**(58,690)**	(27,344)
Net cash inflow/(outflow) from operating activities		**73,028**	(484,266)

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

	Note	Year ended 31 December 2020	2019
Cash flows from investing activities			
Proceeds from disposal of property and equipment, intangible assets and other long-term assets		**4,087**	10,554
Proceeds from disposal of investments in subsidiaries, associates and joint ventures		**1,085**	1,459
Dividends received		**909**	1,693
Interest income received from financial investments		**152,114**	153,950
Proceeds from disposal/maturity of financial investments		**3,302,506**	2,800,591
Increase in investments in subsidiaries, associates and joint ventures		**(12,655)**	(1,249)
Purchase of property and equipment, intangible assets and other long-term assets		**(39,622)**	(39,019)
Purchase of financial investments		**(3,425,490)**	(3,093,657)
Net cash outflow from investing activities		**(17,066)**	(165,678)
Cash flows from financing activities			
Proceeds from issuance of bonds		**1,135,331**	985,472
Proceeds from issuance of other equity instruments		**109,560**	139,961
Proceeds from capital contribution by non-controlling shareholders		**1,358**	1,380
Repayments of debts issued		**(984,337)**	(684,069)
Cash payments for interest on bonds issued		**(23,756)**	(28,770)
Repayments of other equity instruments issued		**(32,000)**	(45,987)
Dividend payments to equity holders of the Bank		**(65,948)**	(60,993)
Dividend and coupon payments to non-controlling shareholders		**(6,982)**	(6,794)
Other net cash flows from financing activities		**(6,609)**	(7,089)
Net cash inflow from financing activities		**126,617**	293,111
Effect of exchange rate changes on cash and cash equivalents		**(33,603)**	14,125
Net increase/(decrease) in cash and cash equivalents		**148,976**	(342,708)
Cash and cash equivalents at beginning of year		**1,345,892**	1,688,600
Cash and cash equivalents at end of year	V.42	**1,494,868**	1,345,892

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

Notes to the Consolidated Financial Statements

(Amount in millions of Renminbi, unless otherwise stated)

I GENERAL INFORMATION AND PRINCIPAL ACTIVITIES

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

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

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

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

The parent company is Central Huijin Investment Limited ("Huijin"), a wholly owned subsidiary of China Investment Corporation ("CIC").

These consolidated financial statements have been approved by the Board of Directors on 30 March 2021.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

1 Basis of preparation

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

Financial assets at fair value through other comprehensive income, financial assets and financial liabilities at fair value through profit or loss (including derivative financial instruments) and investment properties are measured at their fair values in the consolidated financial statements. Other accounting items are measured at their historical costs. Impairment allowance is recognised and measured as relevant policy.

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

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

1 Basis of preparation (Continued)

1.1 Standards, amendments and interpretations effective in 2020

On 1 January 2020, the Group adopted the following new standards, amendments and interpretations.

IFRS 3 Amendments	*Definition of a Business*
IAS 1 and IAS 8 Amendments	*Definition of Material*
IFRS 9, IAS 39 and IFRS 7 Amendments	*Interest Rate Benchmark Reform*
IFRS 16 Amendment	*COVID-19-Related Rent Concessions*

IFRS 3 Amendments clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business.

Amendments to IAS 1 and IAS 8 provide a new definition of materiality. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions made by the primary users of general purpose financial statements based on those financial statements. The amendments clarify that materiality depends on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

The amendments to IFRS 9, IAS 39 and IFRS 7 modify some specific hedge accounting requirements. During the period of uncertainty arising from phasing-out of interest-rate benchmarks with an alternative nearly risk-free interest rate ("RFR"), the entities that apply these hedge accounting requirements can assume that the interest rate benchmarks on which the hedged cash flows and cash flows of the hedging instrument are based are not altered as a result of interest rate benchmark reform. The implications of the adoption of amendments on the Group are addressed in Note V.16.3.

IFRS 16 Amendment provides for rent concessions during COVID-19, which provides an exemption for lessees. For lease payments due before June 2021, lessees are not required to apply the guidance on accounting treatment of lease modifications in IFRS 16 for qualifying rent concessions granted due to the impact of COVID-19. The amendment is applicable for annual reporting periods beginning on or after 1 June 2020, and earlier adoption is permitted. The Group has adopted the amendments from 1 January 2020.

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

(Amount in millions of Renminbi, unless otherwise stated)

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

1 Basis of preparation (Continued)

1.2 Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2020

		Effective for annual periods beginning on or after
IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Amendments	*Interest Rate Benchmark Reform — Phase 2*	1 January 2021
IFRS 3 Amendments	*Reference to the Conceptual Framework*	1 January 2022
IAS 16 Amendments	*Property, Plant and Equipment: Proceeds before Intended Use*	1 January 2022
IAS 37 Amendments	*Onerous Contracts — Cost of Fulfilling a Contract*	1 January 2022
IAS 1 Amendments	*Classification of Liabilities as Current or Non-current*	1 January 2023
IAS 1 and IFRS Practice Statement 2 Amendments	*Disclosure of Accounting Policies*	1 January 2023
IAS 8 Amendments	*Definition of Accounting Estimates*	1 January 2023
IFRS 17 and Amendments	*Insurance Contracts*	1 January 2023
IFRS 10 and IAS 28 Amendments	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	Effective date has been deferred indefinitely
Annual Improvements to IFRSs 2018–2020 Cycle (issued in May 2020)		1 January 2022

The amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 address the accounting issues that arise when financial instruments that reference Interbank Offered Rates ("IBOR") transition to nearly risk-free rates ("RFRs"). The amendments include a practical expedient for modifications, which permits contractual changes, or changes to cash flows that are directly required by the IBOR reform, to be treated as changes to a floating interest rate. The amendments also permit changes required by IBOR reform to be made to hedge designations and hedge documentation under both IFRS 9 and IAS 39 without the hedging relationship being discontinued. In addition, while IFRS 9 and IAS 39 require that a risk component (or a designated portion) is "separately identifiable" to be eligible for hedge accounting, the amendments provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component. Disclose information about new risks arising from the reform and how it manages the transition to alternative benchmark rates is required by the amendments.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

1 Basis of preparation (Continued)

1.2 Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2020 (Continued)

IFRS 3 Amendments add an exception to the recognition principle of IFRS 3 to avoid the issue of potential "day 2" gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets or IFRIC 21 Levies, if incurred separately. The exception requires entities to apply the criteria in IAS 37 or IFRIC 21, respectively, instead of the Conceptual Framework, to determine whether a present obligation exists at the acquisition date. At the same time, the amendments add a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

IAS 16 Amendments prohibit entities from deducting from the cost of an item of property, plant and equipment, any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

IAS 37 Amendments specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

IAS 1 Amendments specify the requirements for classifying liabilities as current or non-current. The amendments clarify what is meant by a right to defer settlement that a right to defer must exist at the end of the reporting period, classification is unaffected by the likelihood that an entity will exercise its deferral right, and only if an embedded derivative in a convertible liability is itself an equity instrument, would the terms of a liability not impact its classification.

The amendments to IAS 1 and IFRS Practice Statement 2 (the PS) provide guidance to help entities apply materiality judgements to accounting policy disclosures. The amendments replace the requirement for entities to disclose their "significant" accounting policies with a requirement to disclose their "material" accounting policies. The amendments add guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

IAS 8 Amendments introduce a new definition of "accounting estimates". The amendments are designed to clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors.

IFRS 17 Insurance Contracts and IFRS 17 amendments replaced IFRS 4 Insurance Contracts. The standard provides a general model for insurance contracts and two additional approaches: the variable fee approach and the premium allocation approach. IFRS 17 and amendments cover the recognition, measurement, presentation and disclosure of insurance contracts and apply to all types of insurance contracts.

(Amount in millions of Renminbi, unless otherwise stated)

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

1 Basis of preparation (Continued)

1.2 Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2020 (Continued)

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

Annual Improvements to IFRSs 2018–2020 Cycle were issued in May 2020, including an amendment to IFRS 9 Financial Instruments, which clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability by conducting the "10 per cent" test for derecognition of financial liabilities. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. The improvements also include an amendment to lease incentives, which removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying IFRS 16 Leases, so as to remove potential confusion regarding the treatment of lease incentives when applying IFRS 16.

The Group is considering the impact of IFRS 17 and amendments on the consolidated and the Bank's financial statements. Except for IFRS 17 and amendments, the adoption of the above standards, amendments and interpretations will have no material impact on the financial statements.

2 Consolidation

2.1 Subsidiaries

Subsidiaries are all entities (including corporates, divided parts of associates and joint ventures, and structured entities controlled by corporates) over which the Group has control. That is the Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The existence and effect of potential voting rights that are currently exercisable or convertible and rights arising from other contractual arrangements are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. If the changes of the relevant facts and circumstances resulting in the definition of control involved in the changes of relevant elements, the Group will re-evaluate whether subsidiaries are controlled.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition by acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

2 Consolidation (Continued)

2.1 Subsidiaries (Continued)

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the identifiable net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement. Goodwill is tested for impairment annually or whenever there is an indication of possible impairment, and carried at cost less accumulated impairment losses. If there is any indication that goodwill is impaired, recoverable amount is estimated and the difference between carrying amount and recoverable amount is recognised as an impairment charge. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

In the Bank's statement of financial position, investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments, but does not include acquisition-related costs, which are expensed as incurred. The dividends or profits declared to distribute by the invested entity shall be recognised by the Bank as the current investment income of subsidiaries. The Group assesses at each financial reporting date whether there is objective evidence that an investment in subsidiaries is impaired. An impairment loss is recognised for the amount by which the investment in subsidiaries' carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the investment in subsidiaries' fair value less costs to sell and value in use.

2.2 Associates and joint ventures

Associates are all entities over which the Group has significant influence but no control or joint control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Joint ventures exist where the Group has a contractual arrangement with one or more parties to undertake economic activities which are subject to joint control.

Investments in associates and joint ventures are initially recognised at cost and are accounted for using the equity method of accounting. The Group's "Investment in associates and joint ventures" includes goodwill.

Unrealised gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interests in the associates and joint ventures; unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of associates and joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

(Amount in millions of Renminbi, unless otherwise stated)

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

2 Consolidation (Continued)

2.2 Associates and joint ventures (Continued)

The Group assesses at each financial reporting date whether there is objective evidence that investments in associates and joint ventures are impaired. Impairment losses are recognised for the amounts by which the investments in associates and joint ventures' carrying amounts exceed their recoverable amounts. The recoverable amounts are the higher of investments in associates and joint ventures' fair value less costs to sell and value in use.

2.3 Transactions with non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is re-measured to its fair value, with the change in carrying amount recognised in the income statement. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income are reclassified to the income statement.

3 Foreign currency translation

3.1 Functional and presentation currency

The functional currency of the operations in the Chinese mainland is the Renminbi ("RMB"). Items included in the financial statements of each of the Group's operations in Hong Kong, Macao, Taiwan and other countries and regions are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The presentation currency of the Group is RMB.

3.2 Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions, or the exchange rates that approximate the exchange rates prevailing at the dates of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in the income statement.

Monetary assets and liabilities denominated in foreign currencies at the financial reporting date are translated at the foreign exchange rates ruling at that date. Changes in the fair value of monetary securities denominated in foreign currency classified as financial assets at fair value through other comprehensive income are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in the income statement, and other changes in the carrying amount are recognised in other comprehensive income. Translation differences on all other monetary assets and liabilities are recognised in the income statement.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

3 Foreign currency translation (Continued)

3.2 Transactions and balances (Continued)

Non-monetary assets and liabilities that are measured at historical cost in foreign currencies are translated using the foreign exchange rates at the date of the transaction. Non-monetary assets and liabilities that are measured at fair value in foreign currencies are translated using the foreign exchange rates at the date the fair value is determined. Translation differences on non-monetary financial assets classified as financial assets at fair value through other comprehensive income are recognised in other comprehensive income. Translation differences on non-monetary financial assets and liabilities held at fair value through profit or loss are recognised as "Net trading gains" in the income statement.

The results and financial positions of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

- income and expenses for each income statement are translated at exchange rates at the date of the transactions, or a rate that approximates the exchange rates of the date of the transaction; and

- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of deposits taken and other currency instruments designated as hedges of such investments are taken to other comprehensive income. When a foreign entity is disposed, these exchange differences are recognised in the income statement. The effect of exchange rate changes on cash and cash equivalents is presented individually in the statement of cash flows.

4 Financial instruments

4.1 Initial recognition and measurement

The Group recognises a financial asset or financial liability in its statement of financial position when the Group becomes a party to the contractual provisions of the instrument, which is the trade date.

At initial recognition, the Group measures a financial asset or financial liability at its fair value. For a financial asset or financial liability at fair value through profit or loss, transaction costs are directly recognised in profit or loss. For other financial asset or liability, transaction costs are recognised in the initial measurement.

The fair value of a financial instrument at initial recognition is normally the transaction price. If the Group determines that the fair value at initial recognition differs from the transaction price, and if that fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets, the Group recognises the difference between the fair value at initial recognition and the transaction price as a gain or loss.

(Amount in millions of Renminbi, unless otherwise stated)

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.2 Classification and Subsequent measurement

4.2.1 Financial assets

The Group classifies financial assets as subsequently measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss on the basis of both the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

Business model

The Group's business model refers to how the Group manages its financial assets in order to generate cash flows. For example, financial assets are held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. If above two situations are not applicable, the business model of the financial assets is "other". The Group's assessment of the business model is performed on a financial asset portfolio basis, and determined on the basis of scenarios which are reasonably expected to occur, taking into account: how cash flows were realised in the past, how the performance are evaluated and reported to the entity's key management personnel; the risks that affect the performance and the way in which those risks are assessed and managed; and how managers of the business are compensated, etc.

The contractual cash flow characteristics

The assessment of contractual cash flow characteristics is to determine whether the asset's contractual cash flows are solely payments of principal and interest on the principal amount outstanding. Principal is the fair value of the financial asset at initial recognition. However, the principal amount may change over the life of the financial asset (for example, if there are repayments of principal). Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin.

(1) Financial assets at amortised cost

The Group classifies financial assets as subsequently measured at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order 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.

Such financial assets that the Group holds are subsequently measured at amortised cost. That is, the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and adjusted for any loss allowance.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.2 Classification and Subsequent measurement (Continued)

4.2.1 Financial assets (Continued)

(2) Financial assets at fair value through other comprehensive income

The Group classifies financial assets as subsequently measured at fair value through other comprehensive income if both of the following conditions are met:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets 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.

Such financial assets that the Group holds are subsequently measured at fair value. A gain or loss on a financial asset measured at fair value through other comprehensive income shall be recognised in "Other comprehensive income", except for interests calculated using effective interest method, impairment gains or losses and foreign exchange gains and losses. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss. The impairment allowances for such financial assets are recognised in other comprehensive income, impairment gains or losses are recognised in profit or loss, and not reduce the carrying amount of such financial assets in the statement of financial position.

Investments in equity instruments

The Group may, at initial recognition, irrevocably designate an investment in equity instrument, which is not held for trading, as at fair value through other comprehensive income when it meets the definition of an equity instrument under IAS 32 *Financial Instruments: Presentation*. When the equity instrument is derecognised, the cumulative gain or loss previously recognised in other comprehensive income shall be reclassified from other comprehensive income to undistributed profits under equity. Dividends, which the Group is entitled to collect, on equity investments in such measurement category are recognised in profit or loss. No impairment gains or losses are recognised for such equity instruments.

(3) Financial assets at fair value through profit or loss

A financial asset is measured at fair value through profit or loss unless it is measured at amortised cost or at fair value through other comprehensive income, which includes financial assets held for trading, financial assets designated as at fair value through profit or loss and other financial assets mandatorily measured at fair value through profit or loss in accordance with IFRS 9.

Such financial assets that the Group holds are subsequently measured at fair value. A gain or loss on such financial asset is recognised in profit or loss unless it is part of a hedging relationship. Dividends, which the Group is entitled to collect, on equity investments in such measurement category are recognised in profit or loss.

When, and only when, the Group changes the business model for managing financial assets, the Group shall reclassify all affected financial assets. Reclassification is applied prospectively from the first day of the first reporting period following the change in business model.

(Amount in millions of Renminbi, unless otherwise stated)

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.2 Classification and Subsequent measurement (Continued)

4.2.2 Financial liabilities

The Group classifies all financial liabilities as subsequently measured at amortised cost, except for:

- financial liabilities at fair value through profit or loss. Such liabilities, include financial liabilities held for trading and financial liabilities designated as at fair value through profit or loss.
- financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies.
- financial guarantee contracts and commitments to provide a loan at a below-market interest rate.

Financial liabilities at fair value through profit or loss held by the Group are subsequently measured at fair value. A gain or loss on a financial liability that is measured at fair value is recognised in profit or loss unless:

- it is part of a hedging relationship; or
- it is a financial liability designated as at fair value through profit or loss and the effects of changes in the Group's credit risk are presented in other comprehensive income. When such financial liability is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from other comprehensive income to undistributed profits under equity.

The Group does not reclassify any financial liabilities.

4.2.3 Financial assets and financial liabilities held for trading

A financial asset or financial liability is classified as held for trading if it:

- is acquired or incurred principally for the purpose of selling or repurchasing it in the near term; or
- on initial recognition is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
- is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.2 Classification and Subsequent measurement (Continued)

4.2.4 Financial assets and financial liabilities designated as at fair value through profit or loss

The Group may, at initial recognition, irrevocably designate a financial asset or financial liability as measured at fair value through profit or loss, because either:

- it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or

- a portfolio of financial liabilities or financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the portfolio is provided internally on that basis to the Group's key management personnel; or

- the financial liability contains one or more embedded derivatives, unless the embedded derivative(s) does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

4.3 Financial guarantee contracts and loan commitments

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies to secure customer loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised at fair value on the date the guarantee was given. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial measurement less amortisation calculated and the impairment allowance determined by the expected credit loss ("ECL") model, and any increase in the liability relating to guarantees is taken to the income statement.

Loan commitments are commitments provided by the Group to the customers to grant loans under the established contract terms during certain period. The impairment allowance for loan commitments is measured using the ECL model.

The impairment allowances for financial guarantees and loan commitments are presented in "Other liabilities — provision".

4.4 Determination of fair value

The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair values of quoted financial assets and financial liabilities in active markets are based on current bid prices and ask prices, as appropriate. If there is no active market, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis and option pricing models, and other valuation techniques commonly used by market participants.

(Amount in millions of Renminbi, unless otherwise stated)

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.4 Determination of fair value (Continued)

The Group uses the valuation techniques commonly used by market participants to price financial instruments and techniques which have been demonstrated to provide reliable estimates of prices obtained in actual market transactions. The Group makes use of all factors that market participants would consider in setting a price, and incorporates these into its chosen valuation techniques and tests for validity using prices from any observable current market transactions in the same instruments.

4.5 Derecognition of financial instruments

Financial assets are derecognised when the rights to receive cash flows from the investments have expired, or when a financial asset is transferred, the Group has transferred substantially all risks and rewards of ownership, or when the Group neither transfers nor retains substantially all risks or rewards of ownership of the financial asset but has not retained control of the financial asset.

Financial liabilities are derecognised when they are extinguished — that is, when the obligation is discharged, cancelled or expires.

4.6 Impairment measurement for losses on assets

At the financial reporting date, the Group assesses and recognises the relevant impairment allowances for financial assets measured at amortised cost, debt instruments measured at fair value through other comprehensive income, and loan commitments and financial guarantee contracts on the basis of expected credit losses.

Measurement of ECL

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

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

- Stage 1: The financial instruments without significant increases in credit risk since initial recognition are included in Stage 1 to calculate their impairment allowance at an amount equivalent to the ECL of the financial instruments for the next 12 months;

- Stage 2: Financial instruments that have had a significant increase in credit risk since initial recognition but have no objective evidence of impairment are included in Stage 2, with their impairment allowance measured at an amount equivalent to the ECL over the lifetime of the financial instruments;

- Stage 3: Financial assets with objective evidence of impairment at the financial reporting date are included in Stage 3, with their impairment allowance measured at an amount equivalent to the ECL over the lifetime of the financial instruments.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.6 Impairment measurement for losses on assets (Continued)

Measurement of ECL (Continued)

Where, in the previous accounting period, the impairment allowance of a financial instrument was measured based on the ECL of the instrument over the entire lifetime, and while, at the current financial reporting date, such financial instrument is no longer regarded as experiencing a significant increase in credit risk since its initial recognition, the Group measures the impairment allowance of the financial instrument on the financial reporting date using the ECL of the instrument over the next 12 months.

For purchased or originated credit-impaired financial assets, the Group only recognises the cumulative change in lifetime expected credit losses since initial recognition at the financial reporting date as impairment allowance. At each financial reporting date, the Group recognises in profit or loss the amount of the changes in lifetime expected credit losses as an impairment gain or loss.

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

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

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

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

- Criteria for determining significant increases in credit risk
- Definition of default and credit-impaired financial assets
- Parameters for measuring ECL
- Forward-looking information
- Modification of contractual cash flows
- Grouping of financial instruments for losses measured on a collective basis

(Amount in millions of Renminbi, unless otherwise stated)

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.6 Impairment measurement for losses on assets (Continued)

Criteria for determining significant increases in credit risk

The Group assesses whether or not the credit risk of the relevant financial instruments has increased significantly since the initial recognition at each financial reporting date. While determining whether the credit risk has significantly increased since initial recognition or not, the Group takes into account the reasonable and supportable information that is available without undue cost or effort, including qualitative and quantitative analysis based on the historical data of the Group, external credit risk rating, and forward-looking information. Based on an individual financial instrument or a group of financial instruments shared credit risk characteristics, the Group compares the risk of default of financial instruments at the financial reporting date with that at the date of initial recognition in order to figure out the changes of default risk in the expected lifetime of financial instruments.

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

Quantitative criteria

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

Qualitative criteria

- Significant adverse change in debtor's operation or financial status

- Be classified into Special Mention category within five-category loan classification

- Be listed on the watch-list

Backstop criteria

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

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.6 Impairment measurement for losses on assets (Continued)

Definition of default and credit-impaired financial asset

The Group considers a financial instrument as default when it is credit-impaired. The standard adopted by the Group to determine whether a financial asset is credit-impaired under IFRS 9 is consistent with the internal credit risk management objectives, taking into account quantitative and qualitative criteria. When the Group assesses whether the credit impairment occurred, the following factors are mainly considered:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
- It becoming probable that the borrower will enter into bankruptcy or other financial re-organisation;
- The disappearance of an active market for that financial asset because of financial difficulties;
- The purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses;
- The debtor is more than 90 days overdue for any of the principal, advances, interest or investments in corporate bonds of the Group.

A financial asset becoming credit-impaired may be caused by the combined effect of several events, but not a single discrete event. For credit-impaired financial assets, the Group mainly evaluate the future cash flow (including the recoverable value of the collateral held) in different circumstances on an individual basis. Expected credit losses are measured as the differences between the present value of estimated cash flows discounted at the original effective interest rate and the asset's gross carrying amount. Any adjustment is recognised in profit or loss as an impairment gain or loss.

Parameters of ECL measurement

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

(Amount in millions of Renminbi, unless otherwise stated)

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.6 Impairment measurement for losses on assets (Continued)

Parameters of ECL measurement (Continued)

Relative definitions are listed as follows:

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

- LGD refers to the Group's expectation of the extent of the loss resulting from the default exposure. Depending on the type of counterparty, the method and priority of the recourse, and the type of collaterals, the LGD varies;

- EAD is the amount that the Group should be reimbursed at the time of the default in the next 12 months or throughout the entire remaining lifetime.

Forward-looking information

The assessment of a significant increase in credit risk and the calculation of ECL both involve forward-looking information. Based on the analysis of historical data, the Group identifies the key macroeconomic indicators that affect the credit risk and ECL of various business types, such as GDP, Investment in fixed assets, PPI, Home price index, CPI.

The specific values of the core macroeconomic indicators used by the Group to evaluate expected credit losses on December 31, 2020 are as follows:

Indicator	Number
YoY Growth Rate of China's GDP in 2021	8.0%

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

In addition to a base economic scenario, the Group conducts statistical analysis with experts' judgement to determine other possible scenarios and their weights. The Group measures the weighted average ECL of 12 months (Stage 1) or life time (Stage 2 and Stage 3).

The Group conducts sensitivity analysis on the main economic indicators used in forward-looking information. When the predicted value of the main economic indicators changes by 10%, the difference between the hypothetical expected credit loss and the current expected credit loss measurement does not exceed 5%.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.6 Impairment measurement for losses on assets (Continued)

Modification of contractual cash flows

A modification or re-negotiation of a contract between the Group and a counterparty may result in a change to the contractual cash flows without resulting in the derecognition of the financial assets. Such restructuring activities include extended payment term arrangements, repayment schedule modifications and changes to the interest settlement method. The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in derecognition of the original asset. The gross carrying amount of the financial asset is recalculated and the related gain or loss is recognised in profit and loss. The gross carrying amount of the financial asset is determined based on the present value of the renegotiated or modified contractual cash flows discounted at the financial asset's original effective interest rate.

The Group monitors the ongoing performance of assets with modified contractual cash flows. Based on the Group's judgment, the Group determined that the credit risk of these assets had significantly improved after modification of contractual cash flows. Accordingly, these assets were transferred from either Stage 3 or Stage 2 to Stage 1, and the related impairment allowance was measured at an amount equal to the 12-month ECL instead of the lifetime ECL.

Grouping of financial instruments for losses measured on a collective basis

For expected credit loss provisions modelled on a collective basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a group are homogeneous. In performing this grouping, there must be sufficient information for the group to be statistically credible. The Group uses credit rating, product types and client types, etc., for grouping the personal loans and advances to calculate the losses measured on a collective basis.

4.7 Write off

When the Group determines that a loan has no reasonable prospect of recovery after the Group has completed all the relevant legal or other proceedings, the loan is written off against its allowance for impairment losses. If in a subsequent period the loan written off is recovered, the amount recovered will be recognised in profit or loss through impairment losses.

4.8 Derivative financial instruments and hedge accounting

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, or valuation techniques, including discounted cash flow analysis and option pricing models, as appropriate. Credit risk valuation adjustments are applied to the Group's over-the-counter derivatives to reflect the credit risk of the counterparties and the Group, respectively. They are dependent on the expected future values of exposures for each counterparty and default probabilities, etc. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

(Amount in millions of Renminbi, unless otherwise stated)

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.8 Derivative financial instruments and hedge accounting (Continued)

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated and qualifies as a hedging instrument, and if so, the nature of the item being hedged. For derivatives not designated or qualified as hedging instruments, including those intended to provide effective economic hedges of specific interest rate and foreign exchange risks, but do not qualify for hedge accounting, changes in the fair value of these derivatives are recognised in "Net trading gains" in the income statement.

The Group documents, at inception, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking hedge transactions. When designating a hedging relationship and on an ongoing basis, the Group assesses the hedge effectiveness, that is the extent to which changes in the fair value or cash flows of the hedging instrument offsets changes in fair values or cash flows of the hedged item.

The hedging relationship should meet all of the following hedge effectiveness requirements:

- There is an economic relationship between the hedged item and the hedging instrument. That means the hedging instrument and hedged item have values that generally move in the opposite direction because of the same risk, which is the hedged risk.

- 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 entity actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of the hedged item. However, that designation shall not reflect an imbalance between the weightings of the hedged item and the hedging instrument that would create hedge ineffectiveness that could result in an accounting outcome that would be inconsistent with the purpose of hedge accounting.

Possible sources of ineffectiveness are as follows:

- Increase or decrease in the amounts of hedged items or hedging instruments;

- Significant changes in counterparties' credit risk.

The Group discontinues hedge accounting prospectively when the hedging instrument expires or is sold, terminated or exercised (the replacement or rollover of a hedging instrument into another hedging instrument does not constitute an expiration or termination), or the hedging relationship ceases to meet the updated risk management objective, or to meet other qualifying criteria for hedging accounting.

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 so that it meets the qualifying criteria again.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.8 Derivative financial instruments and hedge accounting (Continued)

(1) Fair value hedge

Fair value hedge is a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or a component of any such item, that is attributable to a particular risk and could affect profit or loss.

The changes in fair value of hedging instruments that are designated and qualify as fair value hedges are recorded in the income statement, together with the changes in fair value of the hedged item attributable to the hedged risk. The net result is included as ineffectiveness in the income statement.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to the income statement over the period to maturity.

(2) Cash flow hedge

Cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with all, or a component of, a recognised asset or liability (such as all or some future interest payments on variable-rate debt) or a highly probable forecast transaction, and could affect profit or loss.

The effective portion of changes in the fair value of hedging instruments that are designated and qualify as cash flow hedges is recognised in "Other comprehensive income". The ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are reclassified to the income statement in the same periods when the hedged future cash flows affect profit or loss.

When the Group discontinues hedge accounting for a cash flow hedge, if the hedged future cash flows are still expected to occur, that amount accumulated in the cash flow hedge reserve shall remain in equity. If the hedged future cash flows are no longer expected to occur, that amount shall be immediately reclassified from the cash flow hedge reserve to profit or loss.

(3) Net investment hedge

Net investment hedge is a hedge of a net investment in a foreign operation.

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised directly in other comprehensive income; the gain or loss relating to the ineffective portion is recognised immediately in the income statement. Gains and losses accumulated in equity are reclassified to the income statement when the foreign operation is disposed of as part of the gain or loss on the disposal.

(Amount in millions of Renminbi, unless otherwise stated)

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.8 Derivative financial instruments and hedge accounting (Continued)

(3) Net investment hedge (Continued)

When the Group separates the forward element and the spot element of a forward contract and designates as the hedging instrument only the change in the value of the spot element, the changes in the value of the forward element of the forward contract shall be recognised in other comprehensive income to the extent that it relates to the hedged item. If the hedged items are transaction related, the amount accumulated in other comprehensive income shall be accounted for similarly to cash flow hedges. If the hedged items are time-period related, that amount is amortised on a systematic and rational basis over the period during which the hedged items could affect profit or loss, and the amortisation amount is reclassified from other comprehensive income to profit or loss as a reclassification adjustment.

4.9 Embedded derivatives

An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the hybrid (combined) instrument vary in a way similar to a stand-alone derivative.

If a hybrid contract contains a host that is a financial asset, the Group applies the requirements of classification and measurement to the entire hybrid contract. If a hybrid contract contains a host that is not a financial asset, the Group separates the embedded derivative from the host contract and accounts for it as a derivative, if, and only if:

- the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract;

- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and

- The hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in the income statement.

These embedded derivatives separated from the host contract are measured at fair value with changes in fair value recognised in the income statement.

If it is unable to measure the embedded derivative separately either at acquisition or at the subsequent financial reporting date, the Group will designate the entire hybrid instrument as at fair value through profit or loss.

4.10 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a current legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

5 Precious metals and precious metals swaps

Precious metals comprise gold, silver and other precious metals. The Group retains all risks and rewards of ownership related to precious metals deposited with the Group as precious metal deposits, including the right to freely pledge or transfer, and it records the precious metals received as an asset. A liability to return the amount of precious metals deposited is also recognised. Precious metals that are not related to the Group's precious metal market making and trading activities are initially measured at acquisition cost and subsequently measured at the lower of cost and net realisable value. Precious metals that are related to the Group's market making and trading activities are initially recognised at fair value and subsequent changes in fair value included in "Net trading gains" are recognised in the income statement.

Consistent with the substance of the transaction, if the precious metals swaps are for financing purposes, they are accounted for as precious metals subject to collateral agreements. Precious metals collateralised are not derecognised and the related counterparty liability is recorded in "Placements from banks and other financial institutions". If precious metals swaps are for trading purposes, they are accounted for as derivative transactions.

6 Repurchase agreements, agreements to re-sell and securities lending

Securities and bills sold subject to repurchase agreements ("Repos") continue to be recognised, and are recorded as "Financial investments". The corresponding obligation is included in "Placements from banks and other financial institutions" and "Due to central banks". Securities and bills purchased under agreements to re-sell ("Reverse repos") are not recognised. The receivables are recorded as "Placements with and loans to banks and other financial institutions" or "Balances with central banks", as appropriate.

The difference between purchase and sale price is recognised as "Interest expense" or "Interest income" in the income statement over the life of the agreements using the effective interest method.

Securities lending transactions are generally secured, with collateral taking the form of securities or cash. Securities lent to counterparties by the Group are recorded in the consolidated financial statements. Securities borrowed from counterparties by the Group are not recognised in the consolidated financial statements of the Group. Cash collateral received or advanced is recognised as a liability or an asset in the consolidated financial statements.

7 Property and equipment

The Group's property and equipment mainly comprise buildings, equipment and motor vehicles, aircraft and construction in progress. When the costs attributable to the land use rights cannot be reliably measured and separated from that of the building at inception, the costs are included in the cost of buildings and recorded in "Property and equipment".

The assets purchased or constructed are initially measured at acquisition cost or deemed cost, as appropriate. Such initial cost includes expenditure that is directly attributable to the acquisition of the assets.

Subsequent costs are included in an asset's carrying amount, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

(Amount in millions of Renminbi, unless otherwise stated)

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

7 Property and equipment (Continued)

Depreciation is calculated on a straight-line method to write down the cost of such assets to their residual values over their estimated useful lives. The residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each financial reporting date.

Property and equipment are reviewed for impairment at each financial reporting date. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposals are determined by the difference between proceeds and carrying amount, after deduction of relevant taxes and expenses. These are included in the income statement.

7.1 Buildings, equipment and motor vehicles

Buildings comprise primarily branch and office premises. The estimated useful lives, estimated residual value rate and depreciation rate of buildings, equipment and motor vehicles are as follows:

Type of assets	Estimated useful lives	Estimated residual value rate	Annual depreciation rate
Buildings	15–50 years	3%	1.9%–6.5%
Equipment	3–15 years	3%	6.4%–32.4%
Motor vehicles	4–6 years	3%	16.1%–24.3%

7.2 Aircraft

Aircraft are used in the Group's aircraft operating leasing business.

Aircraft are depreciated using the straight-line method over the expected useful life of 25 years, less the years in service at the time of purchase to an estimated residual value rate varying from 0% to 15%.

7.3 Construction in progress

Construction in progress consists of assets under construction or being installed and is stated at cost. Cost includes equipment cost, cost of construction, installation and other direct costs. Items classified as construction in progress are transferred to property and equipment when such assets are ready for their intended use and the depreciation charge commences after such assets are transferred to property and equipment.

8 Leases

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of one or more identified assets for a period of time in exchange for consideration.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

8 Leases (Continued)

8.1 As Lessee

The lease term is the non-cancellable period of a lease for which the Group has the right to use an underlying asset. The Group considers a lease that, at the commencement date of the lease, has a lease term of 12 months or less, and does not contain any option to purchase the underlying asset as a short-term lease; and a lease for which the value of the individual underlying asset is relatively low when it is new as a lease of low-value asset. The Group chooses not to recognise the right-of-use assets and lease liabilities for short-term leases and leases of low-value assets, and the rental expenses are recognised as "Operating expenses" in the income statement on a straight-line basis over each period of the lease term.

The Group uses the incremental borrowing rate as the discount rate to calculate the present value of lease payment. The economic circumstance and the observable interest rate set the foundation for each institution of the Group in determining the incremental borrowing rate. On this basis, the applicable incremental borrowing rate is calculated through the adjustment of the reference interest rate, which is determined according to the situation of the institution and the underlying asset, the lease term, the amount of lease liability and other specific conditions of the lease.

Right-of-use assets

The right-of-use assets of the Group mainly include buildings, vehicles and other right-of-use assets.

At the commencement date of the lease, the Group recognises a right-of-use asset. The cost of the right-of-use asset comprises:

(1) the amount of the initial measurement of the lease liability;

(2) any lease payments made at or before the commencement date of the lease less any lease incentives received;

(3) any initial direct costs incurred when the Group is a lessee; and

(4) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

The right-of-use assets are depreciated on a straight-line basis subsequently by the Group. If the Group is reasonably certain that the ownership of the underlying asset will be transferred to the Group at the end of the lease term, the Group depreciates the asset from the commencement date to the end of the useful life of the asset. Otherwise, the Group depreciates the asset from the commencement date to the earlier of the end of the useful life of the asset or the end of the lease term.

The Group remeasures the lease liabilities at the present value of the changed lease payments and adjusts the carrying amounts of the right-of-use assets accordingly. When the carrying amount of the right-of-use asset is reduced to zero, and there is a further reduction in the measurement of the lease liability, the Group recognises the remaining amount of the remeasurement in profit or loss.

(Amount in millions of Renminbi, unless otherwise stated)

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

8 Leases (Continued)

8.1 As Lessee (Continued)

Lease liabilities

At the commencement date of the lease, the Group measures the lease liabilities at the present value of the lease payments that are not paid at that date, except for short-term leases and leases of low-value assets.

In calculating the present value of the lease payments, the Group uses the incremental borrowing rate of lessee as the discount rate. The Group calculates the interest expenses of lease liabilities in each period during the lease term using the constant periodic rate of interest, and recognises such interest expenses in profit or loss. Variable lease payments that are not included in the measurement of lease liabilities are recognised in profit or loss as incurred.

After the commencement date, the Group remeasures lease liabilities by discounting the revised lease payments if any of the following occur: (i) there is a change in the in-substance fixed payments; (ii) there is a change in the amounts expected to be payable under a residual value guarantee; (iii) there is a change in future lease payments resulting from a change in an index or a rate used to determine those payments; or (iv) there is a change in the assessments of options to purchase the underlying asset, extend or terminate the lease, or the circumstances of the actual exercise of these options.

Lease modification

Lease modification is a change in the scope of a lease, the consideration for a lease or lease term, that was not part of the original terms and conditions of the lease. For example, adding or terminating the right to use one or more underlying assets, or extending or shortening the contractual lease term.

The Group accounts for a lease modification as a separate lease if both:

(1) the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

(2) the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, at the effective date of the lease modification, the Group remeasures the lease term and the lease liability by discounting the revised lease payments using a revised discount rate.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

8 Leases (Continued)

8.2 As Lessor

At the inception date, a lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise, a lease is classified as an operating lease.

When the Group is a lessor under finance leases, the Group recognises the lease payments receivable and derecognises the assets under finance leases at the commencement date. The finance lease receivables are recorded in the consolidated statement of financial position as loans and advances to customers. In the initial measurement of the lease payments receivable, the Group recognises the net investment in the lease as the book value. The net investment in the lease is the present value of the sum of the unguaranteed residual value and the unreceived lease payments receivable at the commencement date, which is discounted by the interest rate implicit in the lease. The Group calculates and recognises the interest income in each period during the lease term using the constant periodic rate of interest, and recognises such interest income in profit or loss. Variable lease payments that are not measured as part of the net investment in the lease are recognised in profit or loss as incurred.

When the Group is a lessor under operating leases, the Group still reflects the underlying assets as the Group's assets. The rental income is recognised as "Other operating income" in the income statement on a straight-line basis over each period of the lease term. Variable lease payments that are not measured as part of the receivable in the lease are recognised in profit or loss as incurred.

9 Investment properties

Investment properties, principally consisting of office buildings, are held to generate rental income or earn capital gains or both and are not occupied by the Group. Investment properties are carried at fair value and changes in fair value are recorded in the income statement, representing the open market value and other related information determined periodically by independent appraisers.

10 Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance owned and controlled by the Group, including computer software and other intangible assets.

Computer software and other intangible assets are stated at acquisition cost less accumulated amortisation and impairment. These costs are amortised on a straight-line basis over their estimated useful lives with the amortisation recognised in the income statement.

The value of intangible assets is reviewed for impairment at each financial reporting date. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

The recoverable amount of an intangible asset is the higher of the asset's fair value less costs to sell and value in use.

11 Repossessed assets

Repossessed assets are initially recognised at fair value of assets not retained plus related costs when they are obtained as the compensation for the loans' principal and interest. When there are indicators that the recoverable amount is lower than carrying amount, the carrying amount is written down immediately to its recoverable amount.

(Amount in millions of Renminbi, unless otherwise stated)

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

12 Employee benefits

12.1 Defined contribution plans and Defined benefit plans

In accordance with the policies of relevant state and local governments, employees in Chinese mainland participate in various defined contribution retirement schemes administered by local Labour and Social Security Bureaus. Operations in Chinese mainland contribute to pension and insurance schemes administered by the local pension and insurance agencies using applicable contribution rates stipulated in the relevant local regulations. Upon retirement, the local Labour and Social Security Bureaus are responsible for the payment of the basic retirement benefits to the retired employees. In addition to these basic staff pension schemes, employees in Chinese mainland who retire after 1 January 2004 can also voluntarily participate in a defined contribution plan established by the Bank ("the Annuity Plan"). The Bank contributes to the Annuity Plan based on certain percentages of the employees' gross salaries.

All eligible employees in operations in Hong Kong, Macao, Taiwan and other countries and regions participate in local defined contribution schemes or defined benefit plans.

Contributions made by the Group to the retirement schemes described above are recognised as "Operating expenses" in the income statement as incurred. Forfeited contributions by those employees who leave the schemes prior to the full vesting of their contributions are used to reduce the existing level of contributions or retained in the retirement schemes in accordance with the requirements of the respective defined contribution plans.

The obligations related to the defined benefit plans are calculated by independent actuaries using the projected unit credit method at each financial reporting date. The actuarial gains or losses are recognised in "Other comprehensive income" immediately when they occur, the gains or losses arising from amendments to pension plans are charged or credited to the income statement immediately as "Operating expenses" when they occur.

12.2 Retirement benefit obligations

The Group pays supplemental retirement benefits to employees in Chinese mainland who retired prior to 31 December 2003 and early retirement benefits to those employees who accepted an early retirement arrangement.

Supplemental retirement benefits include supplemental pension payments and medical expense coverage.

Early retirement benefits have been paid to those employees who accept voluntary retirement before the normal retirement date, as approved by management. The related benefit payments are made from the date of early retirement to the normal retirement date.

The liability related to the above supplemental retirement benefit obligations and early retirement obligations existing at each financial reporting date is calculated by independent actuaries using the projected unit credit method and is recorded as a liability under "Retirement benefit obligations" in the statement of financial position. The present value of the liability is determined through discounting the estimated future cash outflows using interest rates of RMB treasury bonds which have terms to maturity approximating the terms of the related liability. The actuarial gains or losses of supplemental retirement benefit are recognised in "Other comprehensive income" immediately when they occur. The actuarial gains or losses of early retirement benefit obligations and the gains or losses arising from amendments to retirement benefit obligations are charged or credited to the income statement immediately as "Operating expenses" when they occur.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

12 Employee benefits (Continued)

12.3 Housing funds

Pursuant to local government regulations, all employees in Chinese mainland participate in various local housing funds administered by local governments. Operations in Chinese mainland contribute on a monthly basis to these funds based on certain percentages of the salaries of the employees. These payments are recognised as "Operating expenses" in the income statement as incurred.

12.4 Share-based compensation

(1) Equity-settled share-based compensation schemes

The fair value of the employee services received in exchange for the grant of the options under these schemes is recognised as an expense over the vesting period, with a corresponding increase in equity. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions. The fair value of the equity instruments is measured at the grant date and is not subsequently re-measured. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each financial reporting date, the Group revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, as "Operating expenses" in the income statement over the remaining vesting period, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to "Share capital" (nominal value) and "Capital reserve" when the options are exercised.

(2) Cash-settled share-based compensation schemes

The related cost of services received from the employees and the liability to pay for such services are measured at fair value and recognised over the vesting period as the employees render services. Fair value is established at the grant date, re-measured at each financial reporting date with any changes in fair value recognised as "Operating expenses" in the income statement for the period and derecognised when the liability is settled.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the rights granted, excluding the impact of any non-market vesting conditions. Non-market conditions are included in the assumptions about the number of rights that are expected to vest. At each financial reporting date, the Group revises its estimates of the number of rights that are expected to vest. It recognises the impact of the revision to original estimates, if any, as "Operating expenses" in the income statement, with a corresponding adjustment to liability.

12.5 Bonus plans

The Group recognises a liability and an expense for bonuses, taking into consideration its business performance and profit attributable to the Bank's equity holders. The Group recognises a liability where contractually obliged or where there is a past practice that has created a constructive obligation.

(Amount in millions of Renminbi, unless otherwise stated)

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

13 Provisions

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. The amount initially recognised as a provision should be the best estimate of the expenditure required to settle the present obligation.

14 Insurance contracts

14.1 Insurance contracts classification

The Group's insurance subsidiaries issue insurance contracts that transfer significant insurance risk. The Group performs a significant insurance risk test at the contract initial recognition date. Insurance risk is significant if, and only if, an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance. The Group issues non-life insurance contracts, which cover casualty and property insurance risk, and life insurance contracts, which insure events associated with human life (for example death, or survival) over a long duration.

The Group does not separately measure embedded derivatives that itself meet the definition of an insurance contract or options to surrender insurance contracts for a fixed amount (or an amount based on a fixed amount and an interest rate).

14.2 Insurance contracts recognition and measurement

(1) Non-life insurance contracts

Premiums on non-life insurance contracts are recognised as revenue (earned premiums) proportionally over the period of coverage. The portion of premium received on in-force contracts that relates to unexpired risks at the financial reporting date is reported as the unearned premium liability in "Other liabilities". Claims and loss adjustment expenses are charged to the income statement as "Operating expenses" when incurred based on the estimated liability for compensation owed to contract holders or third parties damaged by the contract holders. They include direct and indirect claims settlement costs and arise from events that have occurred up to the financial reporting date even if they have not yet been reported to the Group.

(2) Life insurance contracts

Premiums on life insurance contracts are recognised as revenue when they become payable by the contract holders. Benefits and claims are recorded as an expense when they are incurred. A liability for contractual benefits that are expected to be incurred in the future is recorded when premiums are recognised. For certain long-term insurance contracts (investment-linked long-term insurance contracts) with embedded derivatives linking payments on the contract to units of an investment fund set up by the Group with the consideration received from the contract holders, the liability is adjusted for all changes in the fair value of the underlying assets, and includes a liability for contractual benefits that are expected to be incurred in the future which is recorded when the premiums are recognised.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

14 Insurance contracts (Continued)

14.3 Liability adequacy test

At each financial reporting date, liability adequacy tests are performed to ensure the adequacy of the insurance contract liabilities (including unearned premium in the case of non-life insurance contracts). In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to the income statement and reported as "Operating expenses", with a provision established for losses arising from the liability adequacy test.

15 Treasury shares, preference shares and perpetual bonds

Where the Bank or other members of the Group purchase the Bank's ordinary shares, "Treasury shares" are recorded at the amount of consideration paid and deducted from total equity until they are cancelled, sold or reissued. Where such shares are subsequently sold or reissued, any consideration received is included in capital and reserves attributable to equity holders of the Bank.

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

Perpetual bonds issued by the Group contain no contractual obligation to deliver cash or another financial asset; or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Group; and perpetual bonds issued includes no terms and arrangements that the bonds must or will alternatively be settled in the Group's own equity instruments. The Group classifies perpetual bonds issued as an equity instrument. Fees, commissions and other transaction costs of perpetual bonds issuance are deducted from equity. The interest on perpetual bonds is recognised as profit distribution at the time of declaration.

16 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

17 Fiduciary activities

The Group acts as a custodian, trustee or in other fiduciary capacities, that result in its holding or placing of assets on behalf of individuals, securities investment funds, social security funds, insurance companies, qualified foreign institutional investors, annuity schemes and other customers. These assets are not included in the statement of financial position of the Group, as they are not assets of the Group.

(Amount in millions of Renminbi, unless otherwise stated)

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

17 Fiduciary activities (Continued)

The Group also administers entrusted loans on behalf of third-party lenders. In this regard, the Group grants loans to borrowers, as an intermediary, at the direction of third-party lenders, who fund these loans. The Group has been contracted by these third-party lenders to manage the administration and collection of these loans on their behalf. The third-party lenders determine both the underwriting criteria for and all terms of the entrusted loans, including their purposes, amounts, interest rates, and repayment schedule. The Group charges a commission related to its activities in connection with the entrusted loans, but the risk of loss is borne by the third-party lenders. Entrusted loans are not recognised in the statement of financial position of the Group.

18 Interest income and expense

The "Interest income" and "Interest expense" in the Group's income statement are the interest income and expense calculated by using the effective interest method on financial assets at amortised cost, financial assets at fair value through other comprehensive income and financial liabilities at amortised cost, etc.

The effective interest method is used in the calculation of the amortised cost of a financial asset or a financial liability and in the allocation and recognition of the interest income or interest expense in profit or loss over the relevant period. The effective interest rate is that exactly discounts estimated future cash flows through the expected life of a financial asset or financial liability to the gross carrying amount of a financial asset or the amortised cost of a financial liability. When calculating the effective interest rate, the Group estimates the expected cash flows by considering all contractual terms of the financial instrument but does not consider expected credit losses. The calculation includes all amounts paid or received by the Group that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

For those purchased or originated credit-impaired financial assets, the Group calculates the interest income by applying the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition. The credit-adjusted effective interest rate is that exactly discounts the estimated future cash flows through the expected life of the financial asset to the amortised cost of a financial asset that is a purchased or originated credit-impaired financial asset.

For those financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets, the Group calculates the interest income by applying the effective interest rate to the amortised cost of the financial asset in subsequent reporting periods.

19 Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. For those services that are provided over a period of time, fee and commission income is accrued in accordance with the terms and conditions of the service agreement. For other services, fee and commission income is recognised when the transactions are completed.

20 Income taxes

Income taxes comprise current income tax and deferred income tax. Tax is recognised in the income statement except to the extent that it relates to items directly recognised in Equity, in which cases, tax is also directly recognised in Equity.

20.1 Current income tax

Current income tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the financial reporting date, and any adjustment to tax payable in respect of previous years.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

20 Income taxes (Continued)

20.2 Deferred income tax

Deferred income tax is recognised using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the financial reporting date and are expected to apply when the related asset is realised, or the liability is settled.

The principal temporary differences arise from asset impairment allowances, revaluation of certain financial assets and financial liabilities including derivative contracts, revaluation of investment properties, depreciation and amortisation, provisions for pension, retirement benefits and salary payables.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which deductible temporary differences can be utilised except the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit/(tax loss).

For deductible temporary differences associated with investment in subsidiaries, associates and joint ventures, a deferred tax asset is recognised to the extent that, and only to the extent that, it is probable that the temporary difference will reverse in the foreseeable future; and taxable profit will be available against which the temporary difference can be utilised.

Deferred tax liabilities shall be recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of goodwill, or the initial recognition of an asset or liability in a transaction which is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit/(tax loss).

Deferred income tax liabilities on taxable temporary differences arising from investments in subsidiaries, associates and joint ventures are recognised, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future.

The tax effects of income tax losses available for carrying forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

21 Segment reporting

The Group reviews the internal reporting in order to assess performance and allocate resources. Segment information is presented on the same basis as the Group's management and internal reporting.

22 Comparative figures

Certain comparative figures have been adjusted to conform with changes in disclosures in the current year, including that the bank has reclassified the financing charges from credit card repayment by instalments from net fee and commission income to interest income since 2020. The comparative figures for the same period in 2019 were restated.

(Amount in millions of Renminbi, unless otherwise stated)

III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Group makes estimates and judgements that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group has taken into consideration the impact of the economic environment on the industries and territories in which the Group operates when determining critical accounting estimates and judgements in applying accounting policies.

Areas susceptible to changes in critical estimates and judgements, which affect the carrying value of assets and liabilities, are set out below. It is possible that actual results may be materially different from the estimates and judgements referred below.

1 Impairment losses on loans and advances to customers

The models and assumptions used by the Group in assessing the expected credit losses on loans and advances to customers are highly dependent on management's judgement.

When determining whether the credit risk of a loan has significantly increased since initial recognition, the Group needs to consider internal and external historical information, current conditions and future economic forecasts. The criteria for a significant increase in credit risk will be used to determine whether impairment allowance for a loan should be measured as equal to lifetime expected credit losses, rather than 12 months expected credit losses.

The parameters used by the Group to measure the ECL model, including PD, LGD and EAD, each involves numerous judgements and assumptions. The Group made adjustments based on the results of the internal rating model of the New Basel Capital Accord and considered macroeconomic forecasts information to determine the debtor's PIT PD. When estimating the LGD, the Group also needs to make judgements by considering the type of counterparty, recourse arrangements, compensation seniority, the type and value of the collateral and historical loss data. For off-balance credit commitments and revolving credit facilities, judgements are also needed to determine the time period applicable for the EAD.

The Group applies expert judgements to predict macroeconomic indicators, analyses the correlations with modelled parameters such as PD, and makes forward-looking adjustments on parameters. At the same time, the Group also needs to estimate the probability of occurrence of multiple different macroeconomic scenarios and calculate probability-weighted expected credit losses.

The estimation of future cash flows is critical for a credit-impaired loan for which expected credit losses are measured on an individual basis. Factors affecting this estimate include, among other things, the granularity of financial information related to specific borrowers, the availability of meaningful information related to industry competitors and the relevance of sector trends to the future performance of individual borrowers and cash flows from the sale of collateral.

III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (Continued)

2 Fair value of derivatives and other financial instruments

The Group establishes the fair value of financial instruments with reference to a quoted market price in an active market or, if there is no active market, using valuation techniques. These valuation techniques include the use of recent arm's length transactions, observable prices for similar instruments, discounted cash flow analysis using risk-adjusted interest rates, and commonly used market pricing models. Whenever possible these models use observable market inputs and data including, for example, interest rate yield curves, foreign currency rates and option volatilities. The results of using valuation techniques are calibrated against the industry practice and observable current market transactions in the same or similar instruments.

The Group assesses assumptions and estimates used in valuation techniques including review of valuation model assumptions and characteristics, changes to model assumptions, the quality of market data, whether markets are active or inactive, other fair value adjustments not specifically captured by models and consistency of application of techniques between reporting periods as part of its normal review and approval processes. Valuation techniques are validated and periodically reviewed and, where appropriate, have been updated to reflect market conditions at the financial reporting date.

With respect to the PRC government obligations related to large policy-directed financing transactions, fair value is determined using the stated terms of the related instrument and with reference to terms determined by the PRC government in similar transactions engaged in or directed by the PRC government. In this regard, there are no other relevant market prices or yields reflecting arm's length transactions of a comparable size and tenor.

3 Provisions

The Group uses judgement to assess whether the Group has a present legal or constructive obligation as a result of past events at each financial reporting date, and judgement is used to determine if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and to determine a reliable estimate of the amount of the obligation and relevant disclosure in the consolidated financial statements.

4 Employee retirement benefit obligations

As described in Note II.12.2 and Note V.33, the Bank has established liabilities in connection with benefits payable to certain retired and early retired employees. These liabilities are calculated using actuarial assumptions such as discount rates, pension benefit inflation rates, medical benefit inflation rates, and other factors. While management believes that its assumptions are appropriate, differences in actual experience or changes in assumptions may affect other comprehensive income, expenses and employee retirement benefit obligations.

5 Taxes

The Group is subject to income, value-added and other taxes in numerous jurisdictions, principally in Chinese mainland and Hong Kong. There are certain transactions and activities for which the ultimate tax determination is uncertain during the ordinary course of business. The Group has made estimates for application of new tax legislation and items of uncertainty taking into account existing tax legislation and past practice, in particular, the treatment of supplementary PRC tax applied to results of overseas operations.

Where the final tax outcome of these matters is different from the amounts that were initially estimated, such differences will impact the current income tax, deferred income tax, and value-added tax in the period during which such a determination is made.

(Amount in millions of Renminbi, unless otherwise stated)

III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (Continued)

6 Impairment of non-financial assets

Non-financial assets are periodically reviewed for impairment and where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

When estimating the value in use of aircraft held by the subsidiary, the Group estimates expected future cash flows from the aircraft and uses a suitable discount rate to calculate present value. The Group obtains valuations of aircraft from independent appraisers for which the principal assumptions underlying aircraft value are based on current market transactions for similar aircraft in the same location and condition. The Group also uses the fair value of aircraft obtained from independent appraisers in its assessment of the recoverable amount of intangible assets and the goodwill arising from the purchase of the Group's aircraft leasing subsidiary.

7 Judgement in assessing control over structured entities

The Group is involved with structured entities in its normal business course, and the Group determines whether or not to consolidate those structured entities depending on whether the Group has control over them. When assessing control over structured entities, the Group takes consideration of power arising from rights it directly owns or indirectly owns through subsidiaries (including controlled structured entities), variable returns, and the link between power and returns.

The variable returns the Group is exposed to from its involvement with structured entities include decision makers' remuneration (such as management fees and performance-related fees), as well as other benefits (such as investment income, remuneration and exposure to loss from providing credit or liquidity support, and variable returns from transactions with structured entities). When assessing whether it controls a structured entity, the Group not only considers applicable legal or regulatory requirements, and contractual agreements, but also other circumstances where the Group may have obligation to absorb any loss of the structured entity.

The Group reassesses whether it controls a structured entity if facts and circumstances indicate that there are changes to one or more of the relevant elements of control.

IV TAXATION

The principal income and other taxes to which the Group is subject are listed below:

Taxes	Tax basis	Statutory rates
Chinese mainland		
Corporate income tax	Taxable income	25%
Value-added tax	Taxable added value	6%
City construction and maintenance tax	Turnover tax paid	1%–7%
Education surcharges	Turnover tax paid	3%
Local education surcharges	Turnover tax paid	2%
Hong Kong		
Hong Kong profits tax	Assessable profits	16.5%

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 Net interest income

	Year ended 31 December	
	2020	2019
Interest income		
Loans and advances to customers	**550,354**	533,365
Financial investments[1]	**150,553**	155,126
Due from and placements with and loans to banks and other financial institutions and central banks	**59,163**	69,516
Subtotal	**760,070**	758,007
Interest expense		
Due to customers	**(258,439)**	(269,324)
Due to and placements from banks and other financial institutions	**(49,419)**	(66,103)
Bonds issued and other	**(36,294)**	(32,530)
Subtotal	**(344,152)**	(367,957)
Net interest income	**415,918**	390,050
Interest income accrued on impaired financial assets (included within interest income)	**1,236**	1,497

(1) Interest income on "Financial investments" is principally derived from debt securities listed in the domestic interbank bond market and unlisted debt securities in Hong Kong, Macao, Taiwan and other countries and regions.

2 Net fee and commission income

	Year ended 31 December	
	2020	2019
Agency commissions	**25,367**	20,320
Settlement and clearing fees	**14,383**	14,713
Bank card fees	**13,825**	16,013
Credit commitment fees	**11,912**	12,746
Spread income from foreign exchange business	**5,871**	7,154
Custodian and other fiduciary service fees	**4,831**	4,120
Consultancy and advisory fees	**3,535**	4,446
Other	**8,916**	8,587
Fee and commission income	**88,640**	88,099
Fee and commission expense	**(13,118)**	(14,287)
Net fee and commission income	**75,522**	73,812

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3 Net trading gains

	Year ended 31 December	
	2020	2019
Net gains from interest rate products	**5,551**	15,303
Net gains from fund investments and equity products	**5,057**	2,378
Net gains from foreign exchange and foreign exchange products	**4,007**	8,974
Net (losses)/gains from commodity products	**(6,560)**	1,908
Total[(1)]	**8,055**	28,563

(1) Included in "Net trading gains" above for the year ended 31 December 2020 are gains of RMB1,082 million in relation to financial assets and financial liabilities designated as at fair value through profit or loss (2019: gains of RMB3,426 million).

4 Net gains on transfers of financial asset

	Year ended 31 December	
	2020	2019
Net gains on derecognition of financial assets at fair value through other comprehensive income	**7,987**	2,900
Net gains on derecognition of financial assets at amortised cost[(1)]	**1,560**	577
Total	**9,547**	3,477

(1) All the net gains on the derecognition of financial assets at amortised cost result from disposals during the year ended 31 December 2020 and 2019.

5 Other operating income

	Year ended 31 December	
	2020	2019
Insurance premiums[(1)]	**29,676**	26,819
Aircraft leasing income	**12,300**	11,753
Revenue from sale of precious metals products	**6,749**	6,484
Dividend income[(2)]	**5,601**	3,370
Gains on disposal of property and equipment, intangible assets and other assets	**1,394**	1,251
Changes in fair value of investment properties (Note V.21)	**(1,505)**	496
Gains on disposal of subsidiaries, associates and joint ventures	**202**	91
Other[(3)]	**4,188**	3,844
Total	**58,605**	54,108

(1) Details of insurance premium income are as follows:

	Year ended 31 December	
	2020	2019
Life insurance contracts		
Gross earned premiums	**33,290**	28,073
Less: gross written premiums ceded to reinsurers	**(9,348)**	(7,591)
Net insurance premium income	**23,942**	20,482
Non-life insurance contracts		
Gross earned premiums	**6,953**	7,587
Less: gross written premiums ceded to reinsurers	**(1,219)**	(1,250)
Net insurance premium income	**5,734**	6,337
Total	**29,676**	26,819

(2) For equity instruments classified as financial assets at fair value through other comprehensive income, RMB507 million of dividend income is recognised for the year ended 31 December 2020 (2019: RMB388 million).

(3) For the year ended 31 December 2020, the government subsidy income from operating activities, as part of other operating income, is RMB365 million (2019: RMB283 million).

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6 Operating expenses

	Year ended 31 December	
	2020	2019
Staff costs (Note V.7)	**89,334**	90,762
General operating and administrative expenses(1)(2)	**38,944**	41,845
Insurance benefits and claims		
— Life insurance contracts	**26,340**	21,829
— Non-life insurance contracts	**4,241**	4,208
Depreciation and amortisation	**22,871**	21,175
Cost of sales of precious metal products	**6,424**	5,372
Taxes and surcharges	**5,465**	4,984
Other	**8,792**	8,094
Total(3)	**202,411**	198,269

(1) Included in the "General operating and administrative expenses" is principal auditors' remuneration of RMB237 million for the year ended 31 December 2020 (2019: RMB229 million), of which RMB75 million is for Hong Kong, Macao, Taiwan and other countries and regions of the Group (2019: RMB72 million).

(2) Included in the "General operating and administrative expenses" are lease expenses related to short-term leases and leases of low-value assets of RMB1,302 million for the year ended 31 December 2020 (2019: RMB1,405 million).

(3) Included in the "Operating expenses" are premises and equipment-related expenses (mainly comprised of property management and building maintenance expenses and taxes) of RMB12,810 million (2019: RMB13,644 million).

7 Staff costs

	Year ended 31 December	
	2020	2019
Salary, bonus and subsidy	**62,377**	61,095
Staff welfare	**4,218**	3,896
Retirement benefits	**50**	60
Social insurance		
— Medical	**3,109**	4,085
— Pension	**4,607**	6,249
— Annuity	**3,440**	4,178
— Unemployment	**150**	207
— Injury at work	**59**	76
— Maternity insurance	**136**	256
Housing funds	**4,774**	4,595
Labour union fee and staff education fee	**2,082**	2,032
Reimbursement for cancellation of labour contract	**28**	15
Other	**4,304**	4,018
Total	**89,334**	90,762

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8 Directors', supervisors' and senior management's emoluments

Details of the directors' and supervisors' emoluments are as follows:

For the year ended 31 December 2020

	Fees	Remuneration paid	Contributions to pension schemes	Benefits in kind	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors					
LIU Liange[4]	–[2]	619	79	79	777
WANG Wei[4][5]	–[2]	557	75	79	711
LIN Jingzhen[4]	–[2]	557	75	79	711
WANG Jiang[4][5][6]	–[2]	619	79	79	777
WU Fulin[4][6]	–[2]	47	5	7	59
Non-executive directors					
ZHAO Jie[1]	–	–	–	–	–
XIAO Lihong[1]	–	–	–	–	–
WANG Xiaoya[1]	–	–	–	–	–
ZHANG Jiangang[1]	–	–	–	–	–
CHEN Jianbo[1][5]	–	–	–	–	–
LIAO Qiang[1][6]	–	–	–	–	–
Independent directors					
WANG Changyun	635	–	–	–	635
Angela CHAO	450	–	–	–	450
JIANG Guohua	609	–	–	–	609
Martin Cheung Kong LIAO	450	–	–	–	450
CHEN Chunhua[5]	225	–	–	–	225
CHUI Sai Peng Jose[5]	138	–	–	–	138
Supervisors					
WANG Zhiheng	50[3]	–	–	–	50
LI Changlin	50[3]	–	–	–	50
LENG Jie	50[3]	–	–	–	50
JIA Xiangsen	260	–	–	–	260
ZHENG Zhiguang	260	–	–	–	260
WANG Xiquan[4][6]	–	619	79	79	777
	3,177	3,018	392	402	6,989

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8 Directors', supervisors' and senior management's emoluments (Continued)

For the year ended 31 December 2019

	Fees	Remuneration paid	Contributions to pension schemes	Benefits in kind	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors					
LIU Liange[4]	–[2]	807	87	82	976
WANG Wei[4][5]	–[2]	61	6	7	74
LIN Jingzhen[4]	–[2]	725	83	82	890
WANG Jiang[4][5][6]	–[2]	–	–	–	–
CHEN Siqing[4]	–[2]	269	31	26	326
WU Fulin[4][6]	–[2]	726	83	82	891
Non-executive directors					
ZHAO Jie[1]	–	–	–	–	–
XIAO Lihong[1]	–	–	–	–	–
WANG Xiaoya[1]	–	–	–	–	–
ZHANG Jiangang[1]	–	–	–	–	–
CHEN Jianbo[1][5]	–	–	–	–	–
LI Jucai[1]	–	–	–	–	–
LIAO Qiang[1][6]	–	–	–	–	–
Independent directors					
WANG Changyun	621	–	–	–	621
Angela CHAO	450	–	–	–	450
JIANG Guohua	455	–	–	–	455
Martin Cheung Kong LIAO	146	–	–	–	146
CHEN Chunhua[5]	–	–	–	–	–
CHUI Sai Peng Jose[5]	–	–	–	–	–
LU Zhengfei	321	–	–	–	321
LEUNG Cheuk Yan	270	–	–	–	270
Supervisors					
WANG Xiquan[4][6]	–	807	87	82	976
WANG Zhiheng	50[3]	–	–	–	50
LI Changlin	50[3]	–	–	–	50
LENG Jie	50[3]	–	–	–	50
JIA Xiangsen	145	–	–	–	145
ZHENG Zhiguang	145	–	–	–	145
LIU Wanming[4]	–	859	35	46	940
CHEN Yuhua	98	–	–	–	98
	2,801	4,254	412	407	7,874

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8 Directors', supervisors' and senior management's emoluments (Continued)

(1) For the years ended 31 December 2020 and 2019, these non-executive directors of the Bank were not remunerated by the Bank.

(2) For the years ended 31 December 2020 and 2019, these executive directors of the Bank did not receive any fees.

(3) Employee supervisors' above compensation is paid for serving as the supervisors of the Bank.

(4) The total compensation packages for executive directors and supervisors for the year ended 31 December 2020 including discretionary bonus have not yet been finalised in accordance with the relevant regulations of the PRC authorities. The amount of the compensation not provided for is not expected to have any significant impact on the Group's 2020 financial statements. The final compensation for the year ended 31 December 2020 will be disclosed in a separate announcement when determined.

The compensation amounts for these directors and supervisors for the year ended 31 December 2019 were restated based on the finalised amounts as disclosed in the Bank's announcement on resolutions of the board of directors dated 23 September 2020.

A portion of the discretionary bonus payments for executive directors and the chairman of the board of supervisors are deferred for a minimum of 3 years, which is contingent upon the future performance in accordance with relevant regulations of the PRC authorities.

(5) WANG Jiang began to serve as Vice-Chairman of the Board of Directors and Executive Director of the Bank as of 14 January 2020. WANG Wei began to serve as Executive Director of the Bank as of 30 June 2020. CHEN Jianbo began to serve as Non-executive Director of the Bank as of 30 June 2020. CHEN Chunhua began to serve as Independent Director of the Bank as of 20 July 2020. CHUI Sai Peng Jose began to serve as Independent Director of the Bank as of 11 September 2020. ZHANG Keqiu began to serve as Chairwoman of the Board of Supervisors and Shareholder Supervisor of the Bank as of 18 January 2021. Since ZHANG Keqiu did not hold any position at the Board of Supervisors of the Bank in 2020, no emoluments were disclosed in 2020.

(6) WANG Jiang ceased to serve as Vice-Chairman of the Board of Directors and Executive Director of the Bank as of 5 February 2021. WU Fulin ceased to serve as Executive Director of the Bank as of 27 January 2020. LIAO Qiang ceased to serve as Non-executive Director of the Bank as of 5 March 2020. WANG Xiquan ceased to serve as Chairman of the Board of Supervisors and Shareholder Supervisor of the Bank as of 18 January 2021.

Five highest paid individuals

Of the five individuals with the highest emoluments, none of them are directors or supervisors whose emoluments are disclosed above.

The emoluments payable to the five individuals whose emoluments were the highest in the Group for the years ended 31 December 2020 and 2019 respectively are as follows:

	Year ended 31 December	
	2020	2019
Basic salaries and allowances	**23**	24
Discretionary bonuses	**98**	124
Contributions to pension schemes and other	**3**	4
	124	152

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8 Directors', supervisors' and senior management's emoluments (Continued)

Five highest paid individuals (Continued)

Emoluments of the individuals were within the following bands:

Amounts in RMB	Year ended 31 December 2020	2019
16,000,001–20,000,000	**4**	–
20,000,001–50,000,000	**1**	4
50,000,001–70,000,000	**–**	1

The above five highest paid individuals' emoluments are based on best estimates of discretionary bonuses. Discretionary bonuses include portions of payments that are deferred to future periods.

During the years ended 31 December 2020 and 2019, the Group has not paid any emoluments to the directors, supervisors, or senior management as an inducement to join or upon joining the Group or as compensation for loss of office.

9 Impairment losses on assets

	Year ended 31 December 2020	2019
Loans and advances		
— Loans and advances at amortised cost	**103,743**	98,483
— Loans and advances at fair value through other comprehensive income	**(113)**	288
Subtotal	**103,630**	98,771
Financial investments		
— Financial assets at amortised cost	**1,872**	(187)
— Financial assets at fair value through other comprehensive income	**4,244**	387
Subtotal	**6,116**	200
Credit commitments	**5,454**	2,117
Other	**3,181**	883
Subtotal of impairment losses on credit	**118,381**	101,971
Other impairment losses on assets	**635**	182
Total	**119,016**	102,153

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10 Income tax expense

	Year ended 31 December	
	2020	2019
Current income tax		
— Chinese mainland income tax	**45,296**	43,643
— Hong Kong profits tax	**5,242**	5,297
— Macao, Taiwan and other countries and regions taxation	**3,455**	4,768
Adjustments in respect of current income tax of prior years	**1,557**	3,870
Subtotal	**55,550**	57,578
Deferred income tax (Note V.35.3)	**(14,268)**	(8,824)
Total	**41,282**	48,754

The principal tax rates applicable to the Group are set out in Note IV.

The provision for Chinese mainland income tax includes income tax based on the statutory tax rate of 25% of the taxable income of the Bank and each of its subsidiaries established in the Chinese mainland, and supplementary PRC tax on overseas operations as determined in accordance with the relevant PRC income tax rules and regulations (Note III.5).

Taxation on profits of Hong Kong, Macao, Taiwan and other countries and regions has been calculated on the estimated assessable profits in accordance with local tax regulations at the rates of taxation prevailing in the countries or regions in which the Group operates.

The tax rate on the Group's profit before tax differs from the theoretical amount that would arise using the basic Chinese mainland tax rate of the Bank as follows:

	Year ended 31 December	
	2020	2019
Profit before income tax	**246,378**	250,645
Tax calculated at the applicable statutory tax rate	**61,595**	62,661
Effect of different tax rates for Hong Kong, Macao, Taiwan and other countries and regions	**(4,278)**	(5,282)
Supplementary PRC tax on overseas income	**2,924**	2,251
Income not subject to tax(1)	**(29,791)**	(27,846)
Items not deductible for tax purposes(2)	**11,226**	13,442
Other	**(394)**	3,528
Income tax expense	**41,282**	48,754

(1) Income not subject to tax is mainly comprised of interest income from PRC Treasury bonds and local government bonds, and the tax-free income recognised by the overseas entities in accordance with the local tax law.

(2) Non-deductible items primarily include non-deductible losses resulting from the write-off of certain non-performing loans, and marketing and entertainment expenses in excess of the relevant deductible threshold under the relevant PRC tax regulations.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11 Earnings per share (basic and diluted)

Basic earnings per share was computed by dividing the profit attributable to the ordinary shareholders of the Bank by the weighted average number of ordinary shares in issue during the reporting period.

Diluted earnings per share was computed by dividing the adjusted profit attributable to the ordinary shareholders of the Bank based on assuming the conversion of all potentially dilutive shares for the reporting period by the adjusted weighted average number of ordinary shares in issue. There was no difference between basic and diluted earnings per share as there were no potentially dilutive shares outstanding for the years ended 31 December 2020 and 2019.

	Year ended 31 December	
	2020	2019
Profit attributable to equity holders of the Bank	**192,870**	187,405
Less: dividends/interest on preference shares/ perpetual bonds declared	**(12,029)**	(6,826)
Profit attributable to ordinary shareholders of the Bank	**180,841**	180,579
Weighted average number of ordinary shares in issue (in million shares)	**294,381**	294,378
Basic and diluted earnings per share (in RMB)	**0.61**	0.61

Weighted average number of ordinary shares in issue (in million shares)

	Year ended 31 December	
	2020	2019
Issued ordinary shares as at 1 January	**294,388**	294,388
Less: weighted average number of treasury shares	**(7)**	(10)
Weighted average number of ordinary shares in issue	**294,381**	294,378

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12 Other comprehensive income

Accrual amount of other comprehensive income:

	Year ended 31 December	
	2020	2019
Items that will not be reclassified to profit or loss		
Actuarial gains on defined benefit plans	**101**	13
Changes in fair value on investments in equity instruments designated at fair value through other comprehensive income	**(622)**	2,790
Less: related income tax impact	**(29)**	(644)
Other	**10**	(69)
Subtotal	**(540)**	2,090
Items that may be reclassified subsequently to profit or loss		
Changes in fair value on investments in debt instruments measured at fair value through other comprehensive income	**3,950**	17,694
Less: related income tax impact	**(742)**	(3,795)
Amount transferred to the income statement	**(7,711)**	(2,535)
Less: related income tax impact	**1,527**	555
	(2,976)	11,919
Allowance for credit losses on investments in debt instruments measured at fair value through other comprehensive income	**4,108**	682
Less: related income tax impact	**(1,024)**	(167)
	3,084	515
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	**(174)**	(587)
Less: related income tax impact	**44**	147
	(130)	(440)
Exchange differences from the translation of foreign operations	**(21,021)**	7,764
Less: net amount transferred to the income statement from other comprehensive income	**(528)**	(675)
	(21,549)	7,089
Other	**(751)**	602
Subtotal	**(22,322)**	19,685
Total	**(22,862)**	21,775

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12 Other comprehensive income (Continued)

Other comprehensive income attributable to equity holders of the Bank in the consolidated statement of financial position:

	Gains/(losses) on financial assets at fair value through other comprehensive income	Exchange differences from the translation of foreign operations	Other	Total
As at 1 January 2019	9,395	(10,959)	2,981	1,417
Changes in amount for the previous year	13,139	4,787	270	18,196
As at 1 January 2020	**22,534**	**(6,172)**	**3,251**	**19,613**
Changes in amount for the year	**(344)**	**(14,285)**	**(675)**	**(15,304)**
As at 31 December 2020	**22,190**	**(20,457)**	**2,576**	**4,309**

13 Cash and due from banks and other financial institutions

	As at 31 December	
	2020	2019
Cash	**78,825**	64,907
Due from banks in Chinese mainland	**602,340**	361,232
Due from other financial institutions in Chinese mainland	**7,515**	8,043
Due from banks in Hong Kong, Macao, Taiwan and other countries and regions	**110,662**	128,312
Due from other financial institutions in Hong Kong, Macao, Taiwan and other countries and regions	**559**	461
Subtotal(1)	**721,076**	498,048
Accrued interest	**4,327**	3,060
Less: allowance for impairment losses(1)	**(1,083)**	(548)
Subtotal due from banks and other financial institutions	**724,320**	500,560
Total	**803,145**	565,467

(1) As at 31 December 2020 and 2019, the Group included the predominant majority of due from banks and other financial institutions in Stage 1, and measured the impairment losses based on expected credit losses in the next 12 months (12-month ECL).

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14 Balances with central banks

	As at 31 December	
	2020	2019
Mandatory reserves[1]	**1,442,384**	1,498,666
Surplus reserves[2]	**105,270**	132,247
Other[3]	**528,491**	447,048
Subtotal	**2,076,145**	2,077,961
Accrued interest	**695**	848
Total	**2,076,840**	2,078,809

(1) The Group places mandatory reserve funds with the People's Bank of China (the "PBOC") and the central banks of Hong Kong, Macao, Taiwan and other countries and regions where it has operations. As at 31 December 2020, mandatory reserve funds placed with the PBOC were calculated at 11.0% (31 December 2019: 12.5%) and 5.0% (31 December 2019: 5.0%) of qualified RMB deposits and foreign currency deposits from customers of branches in Chinese mainland of the Bank respectively. The mandatory reserve funds placed with the central bank of domestic subsidiaries of the Group are determined by the PBOC. The amounts of mandatory reserve funds placed with the central banks of other jurisdictions are determined by local regulations.

(2) This primarily represented the funds for clearing purpose.

(3) This primarily represented balances other than mandatory reserves and surplus reserves placed with the central banks in Hong Kong, Macao, Taiwan and other countries and regions.

15 Placements with and loans to banks and other financial institutions

	As at 31 December	
	2020	2019
Placements with and loans to:		
Banks in Chinese mainland	**91,709**	134,671
Other financial institutions in Chinese mainland	**529,152**	601,525
Banks in Hong Kong, Macao, Taiwan and other countries and regions	**294,358**	139,744
Other financial institutions in Hong Kong, Macao, Taiwan and other countries and regions	**24,157**	19,667
Subtotal[1][2]	**939,376**	895,607
Accrued interest	**2,429**	4,090
Less: allowance for impairment losses[2]	**(2,485)**	(738)
Total	**939,320**	898,959

(1) "Placements with and loans to banks and other financial institutions" include balances arising from reverse repo agreements and collateralised financing agreements. They are presented by collateral type as follows:

	As at 31 December	
	2020	2019
Debt securities		
— Governments	**182,724**	37,435
— Policy banks	**40,968**	93,364
— Financial institutions	**6,109**	23,588
— Corporates	**256**	–
Subtotal	**230,057**	154,387
Less: allowance for impairment losses	**–**	–
Total	**230,057**	154,387

(2) As at 31 December 2020 and 2019, the Group included the predominant majority of its placements with and loans to banks and other financial institutions in Stage 1, and measured the impairment losses based on expected credit losses in the next 12 months (12-month ECL).

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16 Derivative financial instruments and hedge accounting

The Group enters into foreign currency exchange rate, interest rate, equity, credit or precious metals and other commodity-related derivative financial instruments for trading, hedging, asset and liability management and on behalf of customers.

The contractual/notional amounts and fair values of derivative instruments held by the Group are set out in the following tables. The contractual/notional amounts of financial instruments provide a basis for comparison with the fair values of instruments recognised in the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or market risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates, foreign currency exchange rates, credit spreads, or equity/commodity prices relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

16.1 Derivative financial instruments

	As at 31 December 2020			As at 31 December 2019		
	Contractual/ Notional amount	Fair value Assets	Fair value Liabilities	Contractual/ Notional amount	Fair value Assets	Fair value Liabilities
Exchange rate derivatives						
Currency forwards and swaps, and cross-currency interest rate swaps[(1)]	**6,304,310**	**118,600**	**(151,412)**	6,469,750	65,477	(52,598)
Currency options	**419,338**	**6,921**	**(3,789)**	333,559	1,835	(2,019)
Currency futures	**1,746**	**7**	**(20)**	1,894	10	(6)
Subtotal	**6,725,394**	**125,528**	**(155,221)**	6,805,203	67,322	(54,623)
Interest rate derivatives						
Interest rate swaps	**3,817,876**	**32,789**	**(42,520)**	3,454,898	18,252	(23,188)
Interest rate options	**63,772**	**16**	**(11)**	17,729	31	(29)
Interest rate futures	**543**	**–**	**(1)**	2,400	3	(27)
Subtotal	**3,882,191**	**32,805**	**(42,532)**	3,475,027	18,286	(23,244)
Equity derivatives	**12,927**	**376**	**(413)**	9,219	137	(184)
Commodity derivatives and other	**392,823**	**13,029**	**(13,886)**	347,655	7,590	(12,009)
Total[(2)]	**11,013,335**	**171,738**	**(212,052)**	10,637,104	93,335	(90,060)

(1) These exchange rate derivatives primarily include foreign exchange transactions with customers; foreign exchange transactions to manage foreign currency exchange risks arising from customers; and foreign currency exchange transactions entered into as part of the asset and liability management and funding requirements.

(2) The derivative financial instruments above include those designated as hedging instruments by the Group.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16 Derivative financial instruments and hedge accounting (Continued)

16.2 Hedge accounting

(1) *Fair value hedges*

The Group uses cross-currency interest rate swaps and interest rate swaps to hedge against changes in fair value of "Financial investments", "Due to central banks" and "Bonds issued" arising from changes in foreign currency exchange rates and interest rates. Foreign currency exchange rate risk and interest rate risk are usually the primary risks which affect the change in fair value.

(i) The following table contains details of the derivative hedging instruments used in the Group's fair value hedging strategies:

	Derivatives designated as hedging instruments in fair value hedges			
	Contractual/ Notional amount	Fair value		Line item in the statement of financial position
		Assets	Liabilities	
As at 31 December 2020				
Interest rate risk				
Interest rate swaps	**100,936**	**240**	**(5,216)**	**Derivative financial assets/liabilities**
Foreign exchange and interest rate risk				
Cross-currency interest rate swaps	**1,852**	**–**	**(206)**	**Derivative liabilities**
Total	**102,788**	**240**	**(5,422)**	
As at 31 December 2019				
Interest rate risk				
Interest rate swaps	113,883	372	(2,366)	Derivative financial assets/liabilities
Foreign exchange and interest rate risk				
Cross-currency interest rate swaps	4,351	–	(711)	Derivative financial liabilities
Total	118,234	372	(3,077)	

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16 Derivative financial instruments and hedge accounting (Continued)

16.2 Hedge accounting (Continued)

(1) Fair value hedges (Continued)

(i) The following table contains details of the derivative hedging instruments used in the Group's fair value hedging strategies (Continued):

The following table sets out the maturity and average exchange rate/interest rate information of the hedging instruments mentioned above:

	Fair value hedges					
	Less than 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	Over 5 years	Total
As at 31 December 2020						
Interest rate risk						
Interest rate swaps						
Notional amount	**1,578**	**1,693**	**7,054**	**59,013**	**31,598**	**100,936**
Average fixed interest rate	**2.87%**	**2.12%**	**2.37%**	**2.90%**	**2.99%**	**N/A**
Foreign exchange and interest rate risk						
Cross-currency interest rate swaps						
Notional amount	**–**	**1,212**	**–**	**640**	**–**	**1,852**
Average fixed interest rate	**–**	**5.38%**	**–**	**5.11%**	**–**	**N/A**
Average exchange rate of USD/CNY	**–**	**–**	**–**	**6.1217**	**–**	**N/A**
Average exchange rate of AUD/USD	**–**	**0.9294**	**–**	**–**	**–**	**N/A**
As at 31 December 2019						
Interest rate risk						
Interest rate swaps						
Notional amount	760	2,806	11,014	63,807	35,496	113,883
Average fixed interest rate	2.89%	3.12%	2.29%	3.05%	3.17%	N/A
Foreign exchange and interest rate risk						
Cross-currency interest rate swaps						
Notional amount	1,309	–	1,062	1,980	–	4,351
Average fixed interest rate	5.38%	–	4.50%	5.28%	–	N/A
Average exchange rate of USD/CNY	–	–	6.5717	6.1217	–	N/A
Average exchange rate of AUD/USD	0.9381	–	–	0.9294	–	N/A

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16 Derivative financial instruments and hedge accounting (Continued)

16.2 Hedge accounting (Continued)

(1) Fair value hedges (Continued)

(ii) The following table sets out the details of the hedged items covered by the Group's fair value hedging strategies:

	Fair value hedges				
	Carrying amount of hedged items		Accumulated amount of fair value adjustments on the hedged items		Line item in the statement of financial position
	Assets	Liabilities	Assets	Liabilities	
As at 31 December 2020					
Interest rate risk					
Financial investments	**100,228**	**–**	**5,503**	**–**	**Financial investments**
Due to central banks	**–**	**(2,735)**	**–**	**3**	**Due to central banks**
Bonds issued	**–**	**(4,711)**	**–**	**(113)**	**Bonds issued**
Foreign exchange and interest rate risk					
Bonds issued	**–**	**(1,647)**	**–**	**206**	**Bonds issued**
Total	**100,228**	**(9,093)**	**5,503**	**96**	
As at 31 December 2019					
Interest rate risk					
Financial investments	105,905	–	2,520	–	Financial investments
Bonds issued	–	(11,962)	–	(75)	Bonds issued
Foreign exchange and interest rate risk					
Bonds issued	–	(3,640)	–	711	Bonds issued
Total	105,905	(15,602)	2,520	636	

(iii) The Group's net gains on fair value hedges are as follows:

	Year ended 31 December	
	2020	2019
Net gains on		
— hedging instruments	**(2,843)**	(3,097)
— hedged items	**3,036**	3,291
Ineffectiveness recognised in net trading gains	**193**	194

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16 Derivative financial instruments and hedge accounting (Continued)

16.2 Hedge accounting (Continued)

(2) Net investment hedges

The Group's consolidated statement of financial position is affected by exchange differences between the functional currencies of the Group and functional currencies of its branches and subsidiaries. The Group hedges such exchange exposures only in limited circumstances. Hedging is undertaken using due to customers, due to central banks and foreign exchange forward and swap contracts in the same or exchange-rate pegged currencies as the functional currencies of the related branches and subsidiaries which are accounted for as hedges of certain net investments in foreign operations. Under the hedging relationships of designating due to customers, due to central banks and foreign exchange forward and swap contracts as hedging instruments, the Group separates the forward element and the spot element of a forward contract and designates as the hedging instrument only the change in the value of the spot element of the forward contract. There was no ineffectiveness in the year ended 31 December 2020 (2019: Nil).

(i) Details of due to customers and due to central banks used in the Group's net investment hedging strategies:

As at 31 December 2020, the carrying value of such due to customers amounted to RMB53,087 million (31 December 2019: RMB104,419 million) and due to central banks amounted to RMB1,060 million (31 December 2019: RMB1,407 million).

(ii) The following table contains details of the derivative hedging instruments used in the Group's net investment hedging strategies:

	Derivatives designated as net investment hedging instruments			
	Contractual/ Notional amount	Fair value		Line item in the statement of financial position
		Assets	Liabilities	
As at 31 December 2020				
Foreign exchange forward and swap contracts	**3,966**	**12**	**(360)**	**Derivative financial assets/liabilities**
Total	**3,966**	**12**	**(360)**	
As at 31 December 2019				
Foreign exchange forward and swap contracts	41,128	29	(308)	Derivative financial assets/liabilities
Total	41,128	29	(308)	

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16 Derivative financial instruments and hedge accounting (Continued)

16.2 Hedge accounting (Continued)

(2) *Net investment hedges (Continued)*

(ii) The following table contains details of the derivative hedging instruments used in the Group's net investment hedging strategies (Continued):

The following table sets out the maturity and average exchange rate of the hedging instruments mentioned above:

	Net investment hedges					
	Less than 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	Over 5 years	Total
As at 31 December 2020						
Foreign exchange risk						
Foreign exchange forward and swap contracts						
Notional amount	**–**	**1,956**	**2,010**	**–**	**–**	**3,966**
Average exchange rate of USD/BRL	**–**	**5.2086**	**–**	**–**	**–**	**N/A**
Average exchange rate of USD/ZAR	**–**	**17.5600**	**16.9743**	**–**	**–**	**N/A**
Average exchange rate of USD/INR	**–**	**–**	**79.2094**	**–**	**–**	**N/A**
Average exchange rate of USD/MXN	**–**	**–**	**21.9108**	**–**	**–**	**N/A**
Average exchange rate of NZD/USD	**–**	**0.5928**	**–**	**–**	**–**	**N/A**
Average exchange rate of USD/CLP	**–**	**–**	**778.3973**	**–**	**–**	**N/A**
Average exchange rate of USD/PEN	**–**	**3.5505**	**3.5110**	**–**	**–**	**N/A**
As at 31 December 2019						
Foreign exchange risk						
Foreign exchange forward and swap contracts						
Notional amount	–	1,246	39,882	–	–	41,128
Average exchange rate of USD/HKD	–	–	7.8355	–	–	N/A
Average exchange rate of USD/ZAR	–	15.0995	15.2113	–	–	N/A
Average exchange rate of USD/INR	–	–	73.2963	–	–	N/A
Average exchange rate of USD/MXN	–	–	20.1698	–	–	N/A
Average exchange rate of NZD/USD	–	0.6909	–	–	–	N/A
Average exchange rate of USD/CLP	–	–	723.0169	–	–	N/A
Average exchange rate of USD/SGD	–	–	1.3597	–	–	N/A

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16 Derivative financial instruments and hedge accounting (Continued)

16.2 Hedge accounting (Continued)

(2) Net investment hedges (Continued)

(iii) The Group's gains or losses from the hedging instruments recognised in "Other comprehensive income" on net investment hedges are as follows:

	Year ended 31 December	
	2020	2019
Amounts of fair value changes on hedging instruments recognised in "Other comprehensive income"	**3,841**	(849)
Amounts of forward element reclassified from "Other comprehensive income" to profit or loss	**154**	172
Net amounts of fair value changes on hedging instruments recognised in "Other comprehensive income"	**3,995**	(677)

16.3 IBOR Reform

The Group has hedge accounting relationships that are exposed to different interbank offered rates ("IBORs"), predominantly US dollar Libor, etc. External progress on the transition to RFRs is being monitored, with the objective of ensuring a smooth transition for the Group's hedge accounting relationships. The specific issues arising will vary with the details of each hedging relationship, but may arise due to the transition of existing products included in the designation, a change in expected volumes of products to be issued, a change in contractual terms of new products issued, or a combination of these factors. Some hedges may need to be de-designated and new relationships entered into, while others may survive IBOR reform.

The hedge items that are affected by the adoption of applicable temporary reliefs in hedge accounting relationships are presented in the statement of financial position as "Financial investments", "Due to central banks" and "Bonds issued", etc.

As at 31 December 2020, the notional amount of interest rate derivatives designated in fair value hedged accounting relationships was RMB93,964 million, which represented the extent of the risk exposure around fair value hedging relationships managed by the Group that was directly affected by IBOR reform and impacted by applicable temporary reliefs.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17 Loans and advances to customers

17.1 Analysis of loans and advances to customers by general condition

	As at 31 December	
	2020	2019
Measured at amortised cost		
— Corporate loans and advances	**8,235,520**	7,644,359
— Personal loans	**5,583,295**	5,047,809
— Discounted bills	**1,912**	2,334
Measured at fair value through other comprehensive income(1)		
— Discounted bills	**358,997**	335,583
Subtotal	**14,179,724**	13,030,085
Measured at fair value through profit or loss(2)		
— Corporate loans and advances	**3,661**	4,104
Total	**14,183,385**	13,034,189
Accrued interest	**33,092**	34,596
Total loans and advances	**14,216,477**	13,068,785
Less: allowance for loans at amortised cost	**(368,173)**	(325,360)
Loans and advances to customers, net	**13,848,304**	12,743,425

(1) As at 31 December 2020, loans at fair value through other comprehensive income of the Group were discounted bills. The allowance for impairment losses amounted to RMB446 million (31 December 2019: RMB563 million) and was credited to other comprehensive income.

(2) There was no significant change during the years ended 31 December 2020 and 2019, or cumulatively, in the fair value of the loans that was attributable to changes in the credit risk of the loans.

17.2 Analysis of loans and advances to customers (accrued interest excluded) by geographical area, customer type, industry, collateral type and analysis of impaired and overdue loans and advances to customers are presented in Note VI.3.5.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17 Loans and advances to customers (Continued)

17.3 Reconciliation of allowance for impairment losses on loans and advances to customers

(1) *Allowance for loans at amortised cost*

	Year ended 31 December 2020			
	12-month ECLs	Lifetime ECLs		
	Stage 1	Stage 2	Stage 3	Total
As at 1 January	**109,765**	**79,051**	**136,544**	**325,360**
Transfers to Stage 1	**3,769**	**(3,232)**	**(537)**	**–**
Transfers to Stage 2	**(1,274)**	**13,913**	**(12,639)**	**–**
Transfers to Stage 3	**(407)**	**(30,546)**	**30,953**	**–**
Charge for the year(i)	**70,933**	**24,190**	**42,114**	**137,237**
Reversal	**(43,164)**	**(21,257)**	**(10,126)**	**(74,547)**
Impairment (reversal)/losses due to stage transformation	**(3,507)**	**9,357**	**35,203**	**41,053**
Write-off and transfer out	**(66)**	**–**	**(64,255)**	**(64,321)**
Recovery of loans and advances written off	**–**	**–**	**8,405**	**8,405**
Unwinding of discount on allowance	**–**	**–**	**(1,236)**	**(1,236)**
Exchange differences and other	**(1,483)**	**(764)**	**(1,531)**	**(3,778)**
As at 31 December	**134,566**	**70,712**	**162,895**	**368,173**

	Year ended 31 December 2019			
	12-month ECLs	Lifetime ECLs		
	Stage 1	Stage 2	Stage 3	Total
As at 1 January	95,789	76,603	131,116	303,508
Transfers to Stage 1	5,590	(5,037)	(553)	–
Transfers to Stage 2	(717)	4,411	(3,694)	–
Transfers to Stage 3	(989)	(21,029)	22,018	–
Charge for the year(i)	52,623	40,603	38,420	131,646
Reversal	(37,580)	(25,687)	(14,631)	(77,898)
Impairment (reversal)/losses due to stage transformation	(4,917)	8,664	40,988	44,735
Write-off and transfer out	(269)	–	(84,735)	(85,004)
Recovery of loans and advances written off	–	–	8,407	8,407
Unwinding of discount on allowance	–	–	(1,497)	(1,497)
Exchange differences and other	235	523	705	1,463
As at 31 December	109,765	79,051	136,544	325,360

(i) Charge for the year comprises the impairment losses from new loans, remaining loans without stage transformation, model/risk parameters adjustment, etc.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17 Loans and advances to customers (Continued)

17.3 Reconciliation of allowance for impairment losses on loans and advances to customers (Continued)

(2) *Allowance for loans at fair value through other comprehensive income*

	Year ended 31 December 2020			
	12-month ECLs	Lifetime ECLs		
	Stage 1	Stage 2	Stage 3	Total
As at 1 January	**547**	**16**	**–**	**563**
Charge for the year	**563**	**5**	**–**	**568**
Reversal	**(665)**	**(16)**	**–**	**(681)**
Exchange differences and other	**(4)**	**–**	**–**	**(4)**
As at 31 December	**441**	**5**	**–**	**446**

	Year ended 31 December 2019			
	12-month ECLs	Lifetime ECLs		
	Stage 1	Stage 2	Stage 3	Total
As at 1 January	234	39	–	273
Charge for the year	503	16	–	519
Reversal	(192)	(39)	–	(231)
Exchange differences and other	2	–	–	2
As at 31 December	547	16	–	563

The Group conducted an assessment of ECLs according to forward-looking information and used a number of models and assumptions in its measurement of expected credit losses. These models and assumptions relate to the future macroeconomic conditions and debtors creditworthiness (e.g., the likelihood of default by debtors and the corresponding losses). The Group's assessment of ECLs on 31 December 2020 considered the impact of changes in the current economic environment on the ECL model, including: the debtor's operation or financial status, and the extent of the impact of the COVID-19 pandemic, the Group has granted deferred repayment and interest payment arrangements to some debtors affected by the pandemic, but a deferred principal and interest payment arrangement was not intended to be a judgment basis for automatically triggering a significant increase in the debtor's credit risk; specific industry risks affected by the pandemic; forward-looking forecasts on performance of key macroeconomic indictors based on the impact of the COVID-19 pandemic, among other factors, on economic development trends.

As at 31 December 2020, the expected credit losses comprehensively reflected the Group's credit risk and the expectations for macroeconomic development of the management.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17 Loans and advances to customers (Continued)

17.3 Reconciliation of allowance for impairment losses on loans and advances to customers (Continued)

(2) Allowance for loans at fair value through other comprehensive income (Continued)

In 2020, the changes in gross carrying amounts of loans and advances to customers that have a significant impact on the Group's impairment allowance mainly derived from the credit business in the Chinese mainland, including:

- The domestic branches performed regular reviews of the five-category loan classification grading and internal credit ratings on their loans and advances to customers. Loans with a gross carrying amount of RMB69,946 million (2019: RMB69,820 million) were transferred from Stage 1 to Stage 2 and Stage 3, and the impairment allowance increased correspondingly by RMB22,008 million (2019: RMB21,963 million). The gross carrying amount of loans transferred from Stage 2 to Stage 3 was RMB67,364 million (2019: RMB59,760 million), with a corresponding increase in impairment allowance of RMB20,900 million (2019: RMB22,340 million). The gross carrying amount of the loans transferred from Stage 2 to Stage 1 was RMB16,132 million (2019: RMB45,059 million), and the impairment allowance decreased correspondingly by RMB2,677 million (2019: RMB3,273 million). The gross carrying amount of loans transferred from Stage 3 to Stage 2 and Stage 1 was RMB16,720 million (2019: RMB5,857 million), and the impairment allowance decreased correspondingly by RMB6,656 million (2019: RMB1,677 million).

- The write-off and disposal of the non-performing loans by the domestic branches amounted to RMB60,630 million (2019: RMB78,404 million), resulting in a corresponding reduction of RMB56,567 million (2019: RMB69,468 million) in impairment allowance for Stage 3 loans.

- The domestic branches converted loans of RMB3,659 million (2019: RMB12,813 million) into equity through debt-to-equity swaps and other instruments, resulting in a decrease of RMB1,605 million in impairment allowance for Stage 3 loans (2019: RMB10,193 million).

- Through personal loan securitisation, the domestic branches transferred out loans of RMB18,323 million (2019: RMB50,871 million), resulting in a decrease of RMB66 million (2019: RMB269 million) and RMB1,702 million (2019: RMB354 million) in the impairment allowance for Stage 1 and Stage 3 loans respectively.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18 Financial investments

	As at 31 December	
	2020	2019
Financial assets at fair value through profit or loss		
Financial assets held for trading and other financial assets at fair value through profit or loss		
Debt securities		
Issuers in Chinese mainland		
— Government	**20,176**	16,807
— Public sectors and quasi-governments	**302**	595
— Policy banks	**31,755**	40,005
— Financial institutions	**188,092**	169,477
— Corporate	**42,122**	44,629
Issuers in Hong Kong, Macao, Taiwan and other countries and regions		
— Governments	**18,919**	23,416
— Public sectors and quasi-governments	**45**	177
— Financial institutions	**10,106**	16,617
— Corporate	**9,603**	10,721
	321,120	322,444
Equity instruments	**88,025**	79,456
Fund investments and other	**69,183**	67,562
Total financial assets held for trading and other financial assets at fair value through profit or loss	**478,328**	469,462
Financial assets at fair value through profit or loss (designated)		
Debt securities[(1)]		
Issuers in Chinese mainland		
— Government	**3,073**	8,797
— Policy banks	**509**	2,418
— Financial institutions	**6,640**	9,592
— Corporate	**1,846**	1,329
Issuers in Hong Kong, Macao, Taiwan and other countries and regions		
— Governments	**1,295**	9,712
— Public sectors and quasi-governments	**721**	1,603
— Financial institutions	**5,525**	7,159
— Corporate	**6,514**	8,178
	26,123	48,788
Other	**98**	–
Total financial assets at fair value through profit or loss (designated)	**26,221**	48,788
Total financial assets at fair value through profit or loss	**504,549**	518,250

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18 Financial investments (Continued)

	As at 31 December	
	2020	2019
Financial assets at fair value through other comprehensive income		
Debt securities		
Issuers in Chinese mainland		
— Government	**691,638**	676,685
— Public sectors and quasi-governments	**88,092**	71,172
— Policy banks	**328,713**	299,599
— Financial institutions	**174,517**	315,779
— Corporate	**135,590**	153,617
Issuers in Hong Kong, Macao, Taiwan and other countries and regions		
— Governments	**434,344**	412,194
— Public sectors and quasi-governments	**27,340**	51,252
— Financial institutions	**98,545**	106,951
— Corporate	**107,583**	109,103
	2,086,362	2,196,352
Equity instruments and other	**21,428**	21,777
Total financial assets at fair value through other comprehensive income(2)	**2,107,790**	2,218,129
Financial assets at amortised cost		
Debt securities		
Issuers in Chinese mainland		
— Government(3)(4)	**2,327,382**	2,168,725
— Public sectors and quasi-governments	**43,679**	39,425
— Policy banks	**93,376**	100,638
— Financial institutions	**59,250**	30,637
— Corporate	**39,529**	15,677
— China Orient(5)	**152,433**	152,433
Issuers in Hong Kong, Macao, Taiwan and other countries and regions		
— Governments	**103,432**	80,472
— Public sectors and quasi-governments	**37,950**	66,356
— Financial institutions	**59,762**	31,937
— Corporate	**19,166**	47,588
	2,935,959	2,733,888
Investment trusts, asset management plans and other	**14,447**	13,544
Accrued interest	**37,295**	37,037
Less: allowance for impairment losses	**(8,923)**	(6,786)
Total financial assets at amortised cost	**2,978,778**	2,777,683
Total financial investments(6)(7)(8)(9)	**5,591,117**	5,514,062

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18 Financial investments (Continued)

	As at 31 December	
	2020	2019
Analysed as follows:		
Financial assets at fair value through profit or loss		
— Listed in Hong Kong	**48,718**	46,731
— Listed outside Hong Kong(10)	**283,523**	255,171
— Unlisted	**172,308**	216,348
Financial assets at fair value through other comprehensive income		
Debt securities		
— Listed in Hong Kong	**233,244**	130,743
— Listed outside Hong Kong(10)	**1,210,734**	1,365,202
— Unlisted	**642,384**	700,407
Equity instruments and other		
— Listed in Hong Kong	**6,031**	7,083
— Listed outside Hong Kong(10)	**3,141**	3,215
— Unlisted	**12,256**	11,479
Financial assets at amortised cost		
— Listed in Hong Kong	**34,217**	31,896
— Listed outside Hong Kong(10)	**2,618,215**	2,308,222
— Unlisted	**326,346**	437,565
Total	**5,591,117**	5,514,062
Listed in Hong Kong	**322,210**	216,453
Listed outside Hong Kong(10)	**4,115,613**	3,931,810
Unlisted	**1,153,294**	1,365,799
Total	**5,591,117**	5,514,062

	As at 31 December			
	2020		2019	
	Carrying value	**Market value**	Carrying value	Market value
Debt securities at amortised cost				
— Listed in Hong Kong	**34,217**	**35,960**	31,896	32,847
— Listed outside Hong Kong(10)	**2,618,215**	**2,637,926**	2,308,222	2,670,795

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18 Financial investments (Continued)

(1) In order to eliminate or significantly reduce accounting mismatches, certain debt securities are designated as financial assets at fair value through profit or loss.

(2) The Group exercised its option irrevocably on certain unlisted equity investments, which were classified as financial assets at fair value through other comprehensive income.

The Group's accumulated impairment allowance for the debt securities at fair value through other comprehensive income as at 31 December 2020 amounted to RMB5,479 million (31 December 2019: RMB1,254 million).

(3) On 18 August 1998, a Special Purpose Treasury Bond was issued by the Ministry of Finance ("MOF") with a par value of RMB42,500 million maturing on 18 August 2028. This bond was originally issued with an annual coupon rate of 7.20% and its coupon rate was restructured to 2.25% per annum from 1 December 2004.

(4) The Bank underwrites certain Treasury bonds issued by the MOF and undertakes the role of a distributor of these Treasury bonds through its branch network earning commission income on bonds sold. The investors of these bonds have a right to redeem the bonds at any time prior to maturity and the Bank is committed to redeem these Treasury bonds. The balance of these bonds held by the Bank as at 31 December 2020 amounted to RMB2,337 million (31 December 2019: RMB2,477 million).

(5) The Bank transferred certain non-performing assets to China Orient Asset Management Corporation ("China Orient") in 1999 and 2000. On 1 July 2000, China Orient issued a ten-year bond ("Orient Bond") with a par value of RMB160,000 million and interest rate of 2.25% to the Bank as consideration. During the year ended 31 December 2010, the maturity of this bond was extended to 30 June 2020. In 2020, the Bank reached an agreement with China Orient Asset Management Co., Ltd., on extending the Orient Bond maturity for five years with the maturity date adjusted from 30 June 2020 to 30 June 2025. Pursuant to the requirements of the MOF, as of 1 January 2020, the annual yield of this bond will be determined based on the average yield of the five-year Government Bond calculated for the previous year and the MOF shall continue to provide funding support for the principal and interest of the Orient Bond held by the Bank after the extension of the maturity date. As at 31 December 2020, the Bank had received early repayments amounting to RMB7,567 million cumulatively.

(6) In 2020 and 2019, the Group did not reclassify any of its debt securities subsequent to their initial recognition.

(7) As at 31 December 2020, the Group held bonds issued by the MOF and bills issued by the PBOC included in financial investments. The carrying value (accrued interest excluded) and the related coupon rate range on such bonds and bills are as follows:

	As at 31 December	
	2020	2019
Carrying value (accrued interest excluded)	**979,089**	981,662
Coupon rate range	**0.00%–5.31%**	0.00%–5.31%

(8) Included in the Group's financial investments were certificates of deposit held amounting to RMB130,698 million as at 31 December 2020 (31 December 2019: RMB243,816 million).

(9) As at 31 December 2020, RMB1,467 million of debt securities of the Group was determined to be impaired and was included in Stage 3 (31 December 2019: RMB1,140 million), with the impairment allowance fully accrued (31 December 2019: RMB1,140 million); RMB404 million of debt securities was included in Stage 2 (31 December 2019: RMB479 million), with an impairment allowance of RMB1 million (31 December 2019: RMB5 million); and the remaining debt securities at fair value through other comprehensive income and debt securities at amortised cost were included in Stage 1, with impairment allowance measured based on 12-month expected credit losses.

(10) Debt securities traded in the domestic interbank bond market are included in "Listed outside Hong Kong".

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18 Financial investments (Continued)

Reconciliation of allowance for impairment losses on financial investments at amortised cost:

	Year ended 31 December 2020			
	12-month ECL	**Lifetime ECL**		
	Stage 1	**Stage 2**	**Stage 3**	**Total**
As at 1 January	**383**	**1**	**6,402**	**6,786**
Impairment losses during the year	**1,165**	**–**	**707**	**1,872**
Write-off and transfer out	**–**	**–**	**(24)**	**(24)**
Exchange differences and other	**359**	**–**	**(70)**	**289**
As at 31 December	**1,907**	**1**	**7,015**	**8,923**

	Year ended 31 December 2019			
	12-month ECL	Lifetime ECL		
	Stage 1	Stage 2	Stage 3	Total
As at 1 January	328	3	7,423	7,754
Impairment losses/(reversal) during the year	53	(2)	(238)	(187)
Write-off and transfer out	–	–	(800)	(800)
Exchange differences and other	2	–	17	19
As at 31 December	383	1	6,402	6,786

Reconciliation of allowance for impairment losses on financial investments at fair value through other comprehensive income:

	Year ended 31 December 2020			
	12-month ECL	**Lifetime ECL**		
	Stage 1	**Stage 2**	**Stage 3**	**Total**
As at 1 January	**1,250**	**4**	**–**	**1,254**
Transfers to Stage 2	**(1)**	**1**	**–**	**–**
Transfers to Stage 3	**(2)**	**(4)**	**6**	**–**
Impairment losses during the year	**3,751**	**–**	**–**	**3,751**
Impairment (gains)/losses due to stage transformation	**–**	**(1)**	**494**	**493**
Exchange differences and other	**(19)**	**–**	**–**	**(19)**
As at 31 December	**4,979**	**–**	**500**	**5,479**

	Year ended 31 December 2019			
	12-month ECL	Lifetime ECL		
	Stage 1	Stage 2	Stage 3	Total
As at 1 January	861	1	–	862
Impairment losses during the year	384	3	–	387
Exchange differences and other	5	–	–	5
As at 31 December	1,250	4	–	1,254

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19 Investment in associates and joint ventures

	Year ended 31 December	
	2020	2019
As at 1 January	**23,210**	23,369
Additions	**12,655**	2,011
Disposals and transfer out	**(1,157)**	(1,368)
Share of results, net of tax	**158**	1,057
Dividends received	**(402)**	(1,302)
Exchange differences and other	**(956)**	(557)
As at 31 December	**33,508**	23,210

The carrying amounts of major investments in associates and joint ventures of the Group are as follows. Further details are disclosed in Note V.43.4.

	As at 31 December	
	2020	2019
China Insurance Investment Fund Co., Ltd.	**11,563**	N/A
BOC International (China) Co., Ltd.	**5,022**	4,733
Ying Kou Port Group CORP.	**4,261**	4,479
CGN Phase I Private Equity Fund Company Limited	**1,622**	1,569
Graceful Field Worldwide Limited	**1,386**	1,438
Sichuan Lutianhua Co., Ltd.	**1,306**	1,264
Wkland Investments II Limited	**855**	923
Wuhu Yuanzhong Jiaying Investment Limited Partnership	**767**	819
Wuhu Yinsheng Special Steel Investment Management Limited Partnership	**755**	727
Guangdong Small and Medium Enterprises Equity Investment Fund Company Limited	**731**	745
Other	**5,240**	6,513
Total	**33,508**	23,210

As at 31 December 2020, the ability of associates and joint ventures to transfer funds to the Group is not restricted.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20 Property and equipment

	Year ended 31 December 2020				
	Buildings	Equipment and motor vehicles	Construction in progress	Aircraft	Total
Cost					
As at 1 January	119,077	77,656	32,905	131,821	361,459
Additions	708	5,998	11,658	17,778	36,142
Transfer from/(to) investment properties (Note V.21)	485	–	(242)	–	243
Construction in progress transfer in/(out)	5,375	862	(9,230)	2,993	–
Deductions	(1,728)	(10,726)	(2,373)	(2,948)	(17,775)
Exchange differences	(1,453)	(453)	(1,437)	(8,619)	(11,962)
As at 31 December	122,464	73,337	31,281	141,025	368,107
Accumulated depreciation					
As at 1 January	(40,401)	(60,758)	–	(14,762)	(115,921)
Additions	(3,967)	(6,623)	–	(4,635)	(15,225)
Deductions	1,143	9,178	–	883	11,204
Transfer to investment properties (Note V.21)	18	–	–	–	18
Exchange differences	393	364	–	1,212	1,969
As at 31 December	(42,814)	(57,839)	–	(17,302)	(117,955)
Allowance for impairment losses					
As at 1 January	(767)	–	(227)	(4)	(998)
Additions	(1)	–	–	(623)	(624)
Deductions	16	–	–	4	20
Exchange differences	6	–	–	33	39
As at 31 December	(746)	–	(227)	(590)	(1,563)
Net book value					
As at 1 January	77,909	16,898	32,678	117,055	244,540
As at 31 December	78,904	15,498	31,054	123,133	248,589

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20 Property and equipment (Continued)

	Year ended 31 December 2019				
	Buildings	Equipment and motor vehicles	Construction in progress	Aircraft	Total
Cost					
As at 31 December of prior year	117,948	74,319	30,233	115,153	337,653
Additions	340	6,921	15,977	15,177	38,415
Transfer from/(to) investment properties (Note V.21)	356	–	(11)	–	345
Construction in progress transfer in/(out)	2,238	816	(11,208)	8,154	–
Deductions	(2,388)	(4,639)	(2,467)	(8,746)	(18,240)
Exchange differences	583	239	381	2,083	3,286
As at 31 December	119,077	77,656	32,905	131,821	361,459
Accumulated depreciation					
As at 31 December of prior year	(38,041)	(58,752)	–	(12,437)	(109,230)
Additions	(3,999)	(6,272)	–	(4,180)	(14,451)
Deductions	1,755	4,443	–	2,131	8,329
Transfer to investment properties (Note V.21)	9	–	–	–	9
Exchange differences	(125)	(177)	–	(276)	(578)
As at 31 December	(40,401)	(60,758)	–	(14,762)	(115,921)
Allowance for impairment losses					
As at 31 December of prior year	(770)	–	(217)	(42)	(1,029)
Additions	(7)	–	(10)	–	(17)
Deductions	14	–	–	39	53
Exchange differences	(4)	–	–	(1)	(5)
As at 31 December	(767)	–	(227)	(4)	(998)
Net book value					
As at 31 December of prior year	79,137	15,567	30,016	102,674	227,394
As at 31 December	77,909	16,898	32,678	117,055	244,540

As at 31 December 2020, the net book amount of aircraft leased out by BOC Aviation Limited, a subsidiary of the Group, under operating leases was RMB123,133 million (31 December 2019: RMB114,659 million).

As at 31 December 2020, the net book amount of aircraft owned by BOC Aviation Limited, a subsidiary of the Group, that has been pledged for loan facilities was RMB14,893 million (31 December 2019: RMB20,338 million) (Note V.31).

According to the relevant PRC laws and regulations, after conversion into a joint stock limited liability company, the Bank is required to re-register its property and equipment under the name of Bank of China Limited. As at 31 December 2020, the process of re-registration has not been completed. However, this registration process does not affect the rights of Bank of China Limited to these assets.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20 Property and equipment (Continued)

The carrying value of buildings is analysed based on the remaining terms of the leases as follows:

	As at 31 December	
	2020	2019
Held in Hong Kong		
on long-term lease (over 50 years)	**3,749**	3,694
on medium-term lease (10–50 years)	**7,884**	8,521
on short-term lease (less than 10 years)	**8**	10
Subtotal	**11,641**	12,225
Held outside Hong Kong		
on long-term lease (over 50 years)	**4,507**	4,353
on medium-term lease (10–50 years)	**55,846**	54,641
on short-term lease (less than 10 years)	**6,910**	6,690
Subtotal	**67,263**	65,684
Total	**78,904**	77,909

21 Investment properties

	Year ended 31 December	
	2020	2019
As at 1 January	**23,108**	22,086
Additions	**1,626**	468
Transfer to property and equipment, net (Note V.20)	**(261)**	(354)
Deductions	**(15)**	(11)
Fair value changes (Note V.5)	**(1,505)**	496
Exchange differences	**(888)**	423
As at 31 December	**22,065**	23,108

The Group's investment properties are located in active real estate markets, and external appraisers make reasonable estimation of fair value using market prices of the same or similar properties and other related information from the real estate markets.

Investment properties are mainly held by Bank of China Hong Kong (Holdings) Limited ("BOCHK (Holdings)") and Bank of China Group Investment Limited ("BOCG Investment"), subsidiaries of the Group. The carrying values of investment properties held by BOCHK (Holdings) and BOCG Investment as at 31 December 2020 amounted to RMB12,009 million and RMB7,835 million, respectively (31 December 2019: RMB14,059 million and RMB6,666 million). The valuations of these investment properties as at 31 December 2020 were principally performed by Knight Frank Petty Limited based on the open market price and other related information.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

21 Investment properties (Continued)

The carrying value of investment properties is analysed based on the remaining terms of the leases as follows:

	As at 31 December	
	2020	2019
Held in Hong Kong		
on long-term lease (over 50 years)	**1,976**	3,273
on medium-term lease (10–50 years)	**9,836**	10,556
Subtotal	**11,812**	13,829
Held outside Hong Kong		
on long-term lease (over 50 years)	**4,288**	4,002
on medium-term lease (10–50 years)	**5,782**	5,002
on short-term lease (less than 10 years)	**183**	275
Subtotal	**10,253**	9,279
Total	**22,065**	23,108

22 Other assets

	As at 31 December	
	2020	2019
Accounts receivable and prepayments(1)	**141,286**	107,124
Right-of-use assets(2)	**22,855**	22,822
Intangible assets(3)	**15,614**	13,352
Land use rights(4)	**6,526**	6,903
Long-term deferred expense	**3,215**	3,222
Repossessed assets(5)	**2,120**	2,400
Goodwill(6)	**2,525**	2,686
Interest receivable	**1,299**	1,878
Other	**21,756**	18,737
Total	**217,196**	179,124

(1) Accounts receivable and prepayments

	As at 31 December	
	2020	2019
Accounts receivable and prepayments	**146,144**	111,395
Impairment allowance	**(4,858)**	(4,271)
Net value	**141,286**	107,124

Accounts receivable and prepayments mainly include items in the process of clearing and settlement. The analysis of the ageing of accounts receivable and prepayments is as follows:

	As at 31 December			
	2020		2019	
	Balance	**Impairment allowance**	Balance	Impairment allowance
Within 1 year	**135,647**	**(944)**	101,442	(491)
From 1 year to 3 years	**4,038**	**(892)**	5,895	(900)
Over 3 years	**6,459**	**(3,022)**	4,058	(2,880)
Total	**146,144**	**(4,858)**	111,395	(4,271)

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

22 Other assets (Continued)

(2) Right-of-use assets

	As at 31 December					
	2020			2019		
	Buildings	Motor vehicles and other	Total	Buildings	Motor vehicles and other	Total
Cost						
As at 1 January	**29,500**	**156**	**29,656**	22,652	120	22,772
Additions	**7,413**	**44**	**7,457**	7,341	38	7,379
Deductions	**(1,242)**	**(21)**	**(1,263)**	(624)	(3)	(627)
Exchange differences	**(420)**	**(3)**	**(423)**	131	1	132
As at 31 December	**35,251**	**176**	**35,427**	29,500	156	29,656
Accumulated depreciation						
As at 1 January	**(6,781)**	**(53)**	**(6,834)**	(209)	–	(209)
Additions	**(6,841)**	**(63)**	**(6,904)**	(6,632)	(53)	(6,685)
Deductions	**1,030**	**20**	**1,050**	81	–	81
Exchange differences	**115**	**1**	**116**	(21)	–	(21)
As at 31 December	**(12,477)**	**(95)**	**(12,572)**	(6,781)	(53)	(6,834)
Net book value						
As at 1 January	**22,719**	**103**	**22,822**	22,443	120	22,563
As at 31 December	**22,774**	**81**	**22,855**	22,719	103	22,822

(3) Intangible assets

	Year ended 31 December	
	2020	2019
Cost		
As at 1 January	**26,573**	22,946
Additions	**8,712**	3,712
Deductions	**(226)**	(120)
Exchange differences	**(350)**	35
As at 31 December	**34,709**	26,573
Accumulated amortisation		
As at 1 January	**(13,221)**	(10,479)
Additions	**(6,323)**	(2,775)
Deductions	**208**	60
Exchange differences	**241**	(27)
As at 31 December	**(19,095)**	(13,221)
Net book value		
As at 1 January	**13,352**	12,467
As at 31 December	**15,614**	13,352

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

22 Other assets (Continued)

(4) Land use rights

The carrying value of land use rights is analysed based on the remaining terms of the leases as follows:

	As at 31 December	
	2020	2019
Held outside Hong Kong		
on long-term lease (over 50 years)	**60**	83
on medium-term lease (10–50 years)	**5,809**	6,093
on short-term lease (less than 10 years)	**657**	727
Total	**6,526**	6,903

(5) Repossessed assets

The Group obtained repossessed assets by taking possession of collateral held as security due to default. Such repossessed assets are as follows:

	As at 31 December	
	2020	2019
Commercial properties	**2,347**	2,596
Residential properties	**514**	615
Other	**161**	159
Subtotal	**3,022**	3,370
Less: allowance for impairment losses	**(902)**	(970)
Repossessed assets, net	**2,120**	2,400

The total book value of repossessed assets disposed of during the year ended 31 December 2020 amounted to RMB602 million (2019: RMB276 million). The Group plans to dispose of the repossessed assets held at 31 December 2020 by auction, bidding or transfer.

(6) Goodwill

	Year ended 31 December	
	2020	2019
As at 1 January	**2,686**	2,620
Addition through acquisition of subsidiaries	**–**	27
Decrease resulting from disposal of subsidiaries	**(25)**	–
Exchange differences	**(136)**	39
As at 31 December	**2,525**	2,686

The goodwill mainly arose from the acquisition of BOC Aviation Limited in 2006 amounting to USD241 million (equivalent to RMB1,571 million).

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

23 Impairment allowance

	As at 1 January 2020	Additions/ (reversal), net	Write-off and transfer out	Exchange differences and other	As at 31 December 2020
Impairment allowance					
Loans and advances to customers					
— at amortised cost	**325,360**	**103,743**	**(57,152)**	**(3,778)**	**368,173**
— at fair value through other comprehensive income	**563**	**(113)**	**–**	**(4)**	**446**
Financial investments					
— at amortised cost	**6,786**	**1,872**	**(24)**	**289**	**8,923**
— at fair value through other comprehensive income	**1,254**	**4,244**	**–**	**(19)**	**5,479**
Credit commitments	**23,597**	**5,454**	**–**	**(284)**	**28,767**
Property and equipment	**998**	**624**	**(20)**	**(39)**	**1,563**
Land use rights	**10**	**–**	**–**	**–**	**10**
Repossessed assets	**970**	**53**	**(120)**	**(1)**	**902**
Other	**6,524**	**3,139**	**(522)**	**(25)**	**9,116**
Total	**366,062**	**119,016**	**(57,838)**	**(3,861)**	**423,379**

	As at 1 January 2019	Additions/ (reversal), net	Write-off and transfer out	Exchange differences and other	As at 31 December 2019
Impairment allowance					
Loans and advances to customers					
— at amortised cost	303,508	98,483	(78,094)	1,463	325,360
— at fair value through other comprehensive income	273	288	–	2	563
Financial investments					
— at amortised cost	7,754	(187)	(800)	19	6,786
— at fair value through other comprehensive income	862	387	–	5	1,254
Credit commitments	21,354	2,117	–	126	23,597
Property and equipment	1,029	17	(53)	5	998
Land use rights	10	–	–	–	10
Repossessed assets	837	152	(23)	4	970
Other	5,935	896	(300)	(7)	6,524
Total	341,562	102,153	(79,270)	1,617	366,062

24 Due to banks and other financial institutions

	As at 31 December	
	2020	2019
Due to:		
Banks in Chinese mainland	**515,162**	372,692
Other financial institutions in Chinese mainland	**1,077,841**	1,050,961
Banks in Hong Kong, Macao, Taiwan and other countries and regions	**177,717**	167,352
Other financial institutions in Hong Kong, Macao, Taiwan and other countries and regions	**142,379**	71,913
Subtotal	**1,913,099**	1,662,918
Accrued interest	**3,904**	5,128
Total	**1,917,003**	1,668,046

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

25 Due to central banks

	As at 31 December	
	2020	2019
Foreign exchange deposits	**251,533**	218,364
Other	**630,092**	619,298
Subtotal	**881,625**	837,662
Accrued interest	**6,186**	8,615
Total	**887,811**	846,277

26 Government certificates of indebtedness for bank notes issued and bank notes in circulation

Bank of China (Hong Kong) Limited ("BOCHK") and Bank of China Macao Branch are note issuing banks for Hong Kong Dollar and Macao Pataca notes in Hong Kong and Macao, respectively. Under local regulations, these two entities are required to place deposits with the Hong Kong and Macao governments, respectively, to secure the currency notes in circulation.

Bank notes in circulation represent the liabilities in respect of Hong Kong Dollar notes and Macao Pataca notes in circulation, issued respectively by BOCHK and Bank of China Macao Branch.

27 Placements from banks and other financial institutions

	As at 31 December	
	2020	2019
Placements from:		
Banks in Chinese mainland	**258,240**	339,802
Other financial institutions in Chinese mainland	**27,933**	52,278
Banks in Hong Kong, Macao, Taiwan and other countries and regions	**115,308**	229,337
Other financial institutions in Hong Kong, Macao, Taiwan and other countries and regions	**9,497**	16,434
Subtotal	**410,978**	637,851
Accrued interest	**971**	1,824
Total[(1)(2)]	**411,949**	639,675

(1) In order to eliminate or significantly reduce an accounting mismatch, certain placements from banks and other financial institutions were designated as financial liabilities at FVPL by the Group in 2020. The corresponding total carrying amount of the above-mentioned financial liabilities was RMB3,831 million as at 31 December 2020 (31 December 2019: RMB14,767 million), of which the fair value was approximately the same as the amount that the Group would be contractually required to pay to the holders.

(2) Included in "Placements from banks and other financial institutions" are amounts received from counterparties under repurchase agreements and collateral agreements as follows:

	As at 31 December	
	2020	2019
Repurchase debt securities[(i)]	**127,202**	177,410

(i) Debt securities used as collateral under repurchase agreements were principally government bonds and were included in the amount disclosed under Note V.41.2.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

28 Financial liabilities held for trading

As at 31 December 2020 and 2019, financial liabilities held for trading mainly included short position in debt securities.

29 Due to customers

	As at 31 December	
	2020	2019
Demand deposits		
— Corporate deposits	**4,956,751**	4,434,051
— Personal deposits	**3,355,893**	3,147,889
Subtotal	**8,312,644**	7,581,940
Time deposits		
— Corporate deposits	**3,621,775**	3,619,512
— Personal deposits	**3,854,531**	3,416,862
Subtotal	**7,476,306**	7,036,374
Structured deposits(1)		
— Corporate deposits	**254,553**	247,906
— Personal deposits	**379,680**	424,897
Subtotal	**634,233**	672,803
Certificates of deposit	**206,146**	283,193
Other deposits(2)	**64,042**	75,063
Subtotal due to customers	**16,693,371**	15,649,373
Accrued interest	**185,800**	168,175
Total due to customers(3)	**16,879,171**	15,817,548

(1) According to the risk management policy, in order to match derivatives and reduce market risk, the Group designates some structured deposits as financial liabilities at fair value through profit or loss in the current period. As at 31 December 2020, the carrying amount of the above-mentioned financial liabilities was RMB25,742 million (31 December 2019: RMB17,969 million). At the financial reporting date, the fair value of the above-mentioned financial liabilities was approximately the same as the amount that the Group would be contractually required to pay to the holders. In the years of 2020 and 2019, there was no significant change in the Group's own credit risk for the above structured deposits, therefore, the amount of change in fair value due to the change in the Group's own credit risk is not significant.

(2) Included in other deposits is special purpose funding, which represents long-term funding provided in multiple currencies by foreign governments and/or entities in the form of export credit, foreign government and other subsidised credit. The special purpose funding is normally used to finance projects with a special commercial purpose in the PRC as determined by the foreign governments or entities and the Group is obliged to repay the funding when it falls due.

As at 31 December 2020, the remaining maturity of special purpose funding ranges from 5 days to 33 years. The interest-bearing special purpose funding bears interest at floating and fixed rates ranging from 0.15% to 7.92% (31 December 2019: 0.15% to 7.92%). These terms are consistent with the related development loans granted to customers.

(3) Due to customers included margin deposits for security received by the Group as at 31 December 2020 of RMB304,314 million (31 December 2019: RMB290,076 million).

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

30 Bonds issued

	Issue date	Maturity date	Annual interest rate	As at 31 December 2020	2019
Bonds issued at amortised cost					
Subordinated bonds issued					
2010 RMB Debt Securities(1)	9 March 2010	11 March 2025	4.68%	–	24,930
2011 RMB Debt Securities(2)	17 May 2011	19 May 2026	5.30%	**32,000**	32,000
2012 RMB Debt Securities Second Tranche(3)	27 November 2012	29 November 2027	4.99%	**18,000**	18,000
Subtotal(14)				**50,000**	74,930
Tier 2 capital bonds issued					
2014 US Dollar Debt Securities(4)	13 November 2014	13 November 2024	5.00%	**19,518**	20,852
2017 RMB Debt Securities First Tranche(5)	26 September 2017	28 September 2027	4.45%	**29,970**	29,965
2017 RMB Debt Securities Second Tranche(6)	31 October 2017	2 November 2027	4.45%	**29,972**	29,966
2018 RMB Debt Securities First Tranche(7)	3 September 2018	5 September 2028	4.86%	**39,983**	39,983
2018 RMB Debt Securities Second Tranche(8)	9 October 2018	11 October 2028	4.84%	**39,985**	39,985
2019 RMB Debt Securities First Tranche 01(9)	20 September 2019	24 September 2029	3.98%	**29,988**	29,988
2019 RMB Debt Securities First Tranche 02(10)	20 September 2019	24 September 2034	4.34%	**9,996**	9,996
2019 RMB Debt Securities Second Tranche(11)	20 November 2019	22 November 2029	4.01%	**29,991**	29,990
2020 RMB Debt Securities First Tranche 01(12)	17 September 2020	21 September 2030	4.20%	**59,976**	–
2020 RMB Debt Securities First Tranche 02(13)	17 September 2020	21 September 2035	4.47%	**14,994**	–
Subtotal(14)				**304,373**	230,725
Other bonds issued(15)					
US Dollar Debt Securities				**198,317**	223,192
RMB Debt Securities				**73,165**	52,788
Other				**51,555**	58,500
Subtotal				**323,037**	334,480
Negotiable certificates of deposit(16)				**554,801**	423,658
Subtotal bonds issued at amortised cost				**1,232,211**	1,063,793
Bonds issued at fair value(17)				**6,162**	26,113
Subtotal bonds issued				**1,238,373**	1,089,906
Accrued interest				**6,030**	6,181
Total bonds issued(18)				**1,244,403**	1,096,087

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

30 Bonds issued (Continued)

(1) The subordinated bonds issued on 9 March 2010, have a maturity of 15 years, with a fixed coupon rate of 4.68%, paid annually. The Bank is entitled to early redeem all of the bonds at face value at the end of the tenth year. If the Bank does not exercise this option, the coupon rate of the bonds for the third 5-year period shall be the original coupon rate plus 3.00%, and shall remain fixed until the maturity date. The bank has redeemed all the bonds in advance at face value on 11 March 2020.

(2) The subordinated bonds issued on 17 May 2011, have a maturity of 15 years, with a fixed coupon rate of 5.30%, paid annually. The Bank is entitled to early redeem all the subordinated bonds at the end of the tenth year. If the Bank does not exercise this option, the coupon rate of the bonds for the remaining 5-year period shall remain fixed at 5.30%.

(3) The second subordinated bonds issued on 27 November 2012 have a maturity of 15 years, with a fixed coupon rate of 4.99%, paid annually. The Bank is entitled to early redeem all these bonds at the end of the tenth year. If the Bank does not exercise this option, the coupon rate of the bonds for the remaining 5-year period shall remain fixed at 4.99%.

(4) The Bank issued tier 2 capital bonds in an amount of USD3 billion on 13 November 2014. The bonds have a maturity of 10 years, with a fixed coupon rate of 5.00%.

(5) The Bank issued tier 2 capital bonds in an amount of RMB30 billion on 26 September 2017. The bonds have a maturity of 10 years, with a fixed coupon rate of 4.45%. The Bank is entitled to redeem the bonds at the end of the fifth year.

(6) The Bank issued tier 2 capital bonds in an amount of RMB30 billion on 31 October 2017. The bonds have a maturity of 10 years, with a fixed coupon rate of 4.45%. The Bank is entitled to redeem the bonds at the end of the fifth year.

(7) The Bank issued tier 2 capital bonds in an amount of RMB40 billion on 3 September 2018. The bonds have a maturity of 10 years, with a fixed coupon rate of 4.86%. The Bank is entitled to redeem the bonds at the end of the fifth year.

(8) The Bank issued tier 2 capital bonds in an amount of RMB40 billion on 9 October 2018. The bonds have a maturity of 10 years, with a fixed coupon rate of 4.84%. The Bank is entitled to redeem the bonds at the end of the fifth year.

(9) The Bank issued tier 2 capital bonds in an amount of RMB30 billion on 20 September 2019. The bonds have a maturity of 10 years, with a fixed coupon rate of 3.98%. The Bank is entitled to redeem the bonds at the end of the fifth year.

(10) The Bank issued tier 2 capital bonds in an amount of RMB10 billion on 20 September 2019. The bonds have a maturity of 15 years, with a fixed coupon rate of 4.34%. The Bank is entitled to redeem the bonds at the end of the tenth year.

(11) The Bank issued tier 2 capital bonds in an amount of RMB30 billion on 20 November 2019. The bonds have a maturity of 10 years, with a fixed coupon rate of 4.01%. The Bank is entitled to redeem the bonds at the end of the fifth year.

(12) The Bank issued tier 2 capital bonds in an amount of RMB60 billion on 17 September 2020. The bonds have a maturity of 10 years, with a fixed coupon rate of 4.20%. The Bank is entitled to redeem the bonds at the end of the fifth year.

(13) The Bank issued tier 2 capital bonds in an amount of RMB15 billion on 17 September 2020. The bonds have a maturity of 15 years, with a fixed coupon rate of 4.47%. The Bank is entitled to redeem the bonds at the end of the tenth year.

(14) The claims of the holders of subordinated bonds and tier 2 capital bonds will be subordinated to the claims of depositors and general creditors.

(15) US Dollar Debt Securities, RMB Debt Securities and other Debt Securities were issued in Chinese mainland, Hong Kong, Macao, Taiwan and other countries and regions between 2013 and 2020 by the Group, with dates of maturity ranging from 2021 to 2030.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

30 Bonds issued (Continued)

(16) The RMB negotiable certificates of deposit issued by the Bank in 2019 matured in 2020. The outstanding balance will mature in 2021.

(17) According to risk management policy, in order to match derivatives and reduce market risk, the Group designates some bonds issued as financial liabilities at fair value through profit or loss in the current period. As at 31 December 2020, the carrying amount of the above-mentioned bonds issued by the Group is RMB6,162 million (31 December 2019: RMB26,113 million), and the difference between the fair value and the amount that the Group would be contractually required to pay to the holders is not significant (31 December 2019: not significant). In the years of 2020 and 2019, there is no significant change in the Group's credit risk as well as the fair value caused by credit risk of the above financial liabilities.

(18) During the years ended 31 December 2020 and 2019, the Group did not default on any principal, interest or redemption amounts with respect to its bonds issued.

31 Other borrowings

These other borrowings relate to the financing of the aircraft leasing business of BOC Aviation Limited, a subsidiary of the Group. These other borrowings are secured by its aircraft (Note V.20).

As at 31 December 2020, these other borrowings had a maturity ranging from 75 days to 5 years and bore floating and fixed interest rates ranging from 0.45% to 1.55% (31 December 2019: 2.14% to 3.26%).

During the years ended 31 December 2020 and 2019, the Group did not default on any principal, interest or redemption amounts with respect to its other borrowings.

32 Current tax liabilities

	As at 31 December	
	2020	2019
Corporate income tax	**47,337**	51,787
Value-added tax	**6,742**	6,039
City construction and maintenance tax	**492**	427
Education surcharges	**326**	297
Other	**768**	552
Total	**55,665**	59,102

33 Retirement benefit obligations

As at 31 December 2020, the actuarial liabilities existing in relation to the retirement benefit obligations for employees who retired prior to 31 December 2003 and the early retirement obligations for employees who early-retired were RMB1,896 million (31 December 2019: RMB2,095 million) and RMB303 million (31 December 2019: RMB438 million), respectively, using the projected unit credit method.

The movements of the net liabilities recognised are as follows:

	Year ended 31 December	
	2020	2019
As at 1 January	**2,533**	2,825
Interest cost	**74**	85
Net actuarial gains recognised	**(125)**	(38)
Benefits paid	**(283)**	(339)
As at 31 December	**2,199**	2,533

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

33 Retirement benefit obligations (Continued)

Primary assumptions used:

	As at 31 December	
	2020	2019
Discount rate		
— Normal retiree	**3.25%**	3.25%
— Early retiree	**2.75%**	2.50%
Pension benefit inflation rate		
— Normal retiree	**3.0%**	3.0%
— Early retiree	**3.0%**	4.0%–3.0%
Medical benefit inflation rate	**8.0%**	8.0%
Retiring age		
— Male	**60**	60
— Female	**50/55**	50/55

Assumptions regarding future mortality experience are based on the China Life Insurance Mortality Table (published historical statistics in China).

As at 31 December 2020 and 2019, there was no significant change in employee retirement benefit obligations that was attributable to changes in actuarial assumptions.

34 Share appreciation rights plan

In November 2005, the Bank's Board of Directors and equity holders approved and adopted a Share Appreciation Rights Plan under which eligible participants, including directors, supervisors, management and other personnel designated by the Board, will be granted share appreciation rights, up to 25% of which will be exercisable each year beginning on the third anniversary date from the date of grant. The share appreciation rights will be valid for seven years from the date of grant. Eligible participants will be entitled to receive an amount equal to the difference, if any, between the average closing market price of the Bank's H shares in the ten days prior to the date of grant and the average closing market price of the Bank's H shares in the 12 months prior to the date of exercise as adjusted for any change in the Bank's equity. The plan provides cash-settled share-based payment only and accordingly, no shares will be issued under the share appreciation rights plan.

No share appreciation rights were granted since the inception of the plan.

35 Deferred income taxes

35.1 Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes are related to the same fiscal authority. The table below includes the deferred income tax assets and liabilities of the Group after offsetting qualifying amounts and the related temporary differences.

	As at 31 December			
	2020		2019	
	Temporary differences	**Deferred tax assets/ (liabilities)**	Temporary differences	Deferred tax assets/ (liabilities)
Deferred income tax assets	**234,905**	**58,916**	166,707	44,029
Deferred income tax liabilities	**(45,934)**	**(6,499)**	(30,773)	(5,452)
Net	**188,971**	**52,417**	135,934	38,577

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

35 Deferred income taxes (Continued)

35.2 Deferred income tax assets/liabilities and related temporary differences, before offsetting qualifying amounts, are attributable to the following items:

	As at 31 December			
	2020		2019	
	Temporary differences	**Deferred tax assets/ (liabilities)**	Temporary differences	Deferred tax assets/ (liabilities)
Deferred income tax assets				
Asset impairment allowances	**253,785**	**63,242**	205,264	51,052
Pension, retirement benefits and salary payables	**17,952**	**4,470**	18,137	4,510
Financial instruments at fair value through profit or loss and derivative financial instruments	**174,011**	**43,224**	90,507	22,511
Financial assets at fair value through other comprehensive income	**809**	**202**	835	209
Other temporary differences	**41,355**	**9,599**	34,320	7,931
Subtotal	**487,912**	**120,737**	349,063	86,213
Deferred income tax liabilities				
Financial instruments at fair value through profit or loss and derivative financial instruments	**(174,976)**	**(42,853)**	(93,862)	(23,336)
Financial assets at fair value through other comprehensive income	**(30,836)**	**(7,445)**	(29,403)	(7,228)
Depreciation and amortisation	**(24,104)**	**(4,193)**	(20,629)	(3,521)
Revaluation of property and investment properties	**(8,845)**	**(1,722)**	(8,986)	(1,712)
Other temporary differences	**(60,180)**	**(12,107)**	(60,249)	(11,839)
Subtotal	**(298,941)**	**(68,320)**	(213,129)	(47,636)
Net	**188,971**	**52,417**	135,934	38,577

As at 31 December 2020, deferred tax liabilities relating to temporary differences of RMB164,299 million associated with the Group's investments in subsidiaries had not been recognised (31 December 2019: RMB156,105 million). Refer to Note II.20.2.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

35 Deferred income taxes (Continued)

35.3 The movements of the deferred income tax account are as follows:

	Year ended 31 December	
	2020	2019
As at 1 January	**38,577**	33,656
Credited to the income statement (Note V.10)	**14,268**	8,824
Charged to other comprehensive income	**(62)**	(4,180)
Other	**(366)**	277
As at 31 December	**52,417**	38,577

35.4 The deferred income tax credit/charge in the income statement comprises the following temporary differences:

	Year ended 31 December	
	2020	2019
Asset impairment allowances	**12,190**	5,059
Financial instruments at fair value through profit or loss and derivative financial instruments	**1,196**	4,962
Pension, retirement benefits and salary payables	**(40)**	(72)
Other temporary differences	**922**	(1,125)
Total	**14,268**	8,824

36 Other liabilities

	As at 31 December	
	2020	2019
Insurance liabilities		
— Life insurance contracts	**132,431**	113,742
— Non-life insurance contracts	**9,670**	10,169
Items in the process of clearance and settlement	**78,940**	66,628
Salary and welfare payables[(1)]	**34,179**	33,373
Lease liabilities[(2)]	**21,893**	21,590
Provision[(3)]	**29,492**	24,469
Deferred income	**11,532**	10,476
Other	**92,236**	84,726
Total	**410,373**	365,173

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

36 Other liabilities (Continued)

(1) Salary and welfare payables

	As at 1 January 2020	Accrual	Payment	As at 31 December 2020
Salary, bonus and subsidy	**23,665**	**62,377**	**(62,133)**	**23,909**
Staff welfare	**–**	**4,218**	**(4,218)**	**–**
Social insurance				
— Medical	**1,595**	**3,109**	**(3,228)**	**1,476**
— Pension	**159**	**4,607**	**(4,562)**	**204**
— Annuity	**2,141**	**3,440**	**(3,495)**	**2,086**
— Unemployment	**6**	**150**	**(151)**	**5**
— Injury at work	**2**	**59**	**(60)**	**1**
— Maternity insurance	**3**	**136**	**(136)**	**3**
Housing funds	**39**	**4,774**	**(4,777)**	**36**
Labour union fee and staff education fee	**5,136**	**2,082**	**(1,436)**	**5,782**
Reimbursement for cancellation of labour contract	**19**	**28**	**(23)**	**24**
Other	**608**	**4,304**	**(4,259)**	**653**
Total(i)	**33,373**	**89,284**	**(88,478)**	**34,179**

	As at 1 January 2019	Accrual	Payment	As at 31 December 2019
Salary, bonus and subsidy	23,929	61,095	(61,359)	23,665
Staff welfare	–	3,896	(3,896)	–
Social insurance				
— Medical	1,136	4,085	(3,626)	1,595
— Pension	181	6,249	(6,271)	159
— Annuity	310	4,178	(2,347)	2,141
— Unemployment	7	207	(208)	6
— Injury at work	2	76	(76)	2
— Maternity insurance	3	256	(256)	3
Housing funds	56	4,595	(4,612)	39
Labour union fee and staff education fee	4,792	2,032	(1,688)	5,136
Reimbursement for cancellation of labour contract	17	15	(13)	19
Other	564	4,018	(3,974)	608
Total(i)	30,997	90,702	(88,326)	33,373

(i) There was no overdue payment for staff salary and welfare payables as at 31 December 2020 and 2019.

(2) Lease liabilities

The Group's lease liabilities are analysed by the maturity date — undiscounted analysis

	As at 31 December	
	2020	2019
Less than 1 year	**6,369**	6,307
Between 1 to 5 years	**12,487**	12,965
Over 5 years	**9,161**	8,860
Undiscounted lease liabilities	**28,017**	28,132
Lease liabilities	**21,893**	21,590

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

36 Other liabilities (Continued)

(3) Provision

	As at 31 December	
	2020	2019
Allowance for credit commitments	**28,767**	23,597
Allowance for litigation losses (Note V. 41.1)	**725**	872
Total	**29,492**	24,469

The movement of the provision was as follows:

	Year ended 31 December	
	2020	2019
As at 1 January	**24,469**	22,010
Losses for the year	**5,589**	2,423
Utilised during the year	**(281)**	(90)
Exchange differences and other	**(285)**	126
As at 31 December	**29,492**	24,469

37 Share capital, capital reserve, treasury shares and other equity instruments

37.1 Share capital

The Bank's share capital is as follows:

Unit: Share

	As at 31 December	
	2020	2019
Domestic listed A shares, par value of RMB1.00 per share	**210,765,514,846**	210,765,514,846
Overseas listed H shares, par value of RMB1.00 per share	**83,622,276,395**	83,622,276,395
Total	**294,387,791,241**	294,387,791,241

All A and H shares rank pari passu with the same rights and benefits.

37.2 Capital reserve

	As at 31 December	
	2020	2019
Share premium	**133,679**	133,716
Other capital reserve	**2,294**	2,296
Total	**135,973**	136,012

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

37 Share capital, capital reserve, treasury shares and other equity instruments (Continued)

37.3 Treasury shares

A wholly-owned subsidiary of the Group holds certain listed shares of the Bank in relation to its derivative business. These shares are treated as treasury shares, a deduction from equity. Gains and losses on sale or redemption of the treasury shares are credited or charged to equity. The total number of treasury shares as at 31 December 2020 was approximately 3.53 million (31 December 2019: approximately 2.34 million).

37.4 Other equity instruments

For the year ended 31 December 2020, the movements in the Bank's other equity instruments were as follows:

	As at 1 January 2020		Increase/(Decrease)		As at 31 December 2020	
	Quantity (million shares)	Carrying amount	Quantity (million shares)	Carrying amount	Quantity (million shares)	Carrying amount
Preference Shares						
Domestic Preference Shares (First Tranche)[1]	320.0	31,963	(320.0)	(31,963)	–	–
Domestic Preference Shares (Second Tranche)[2]	280.0	27,969	–	–	280.0	27,969
Domestic Preference Shares (Third Tranche)[3]	730.0	72,979	–	–	730.0	72,979
Domestic Preference Shares (Fourth Tranche)[4]	270.0	26,990	–	–	270.0	26,990
Offshore Preference Shares (Second Tranche)[5]	–	–	197.9	19,581	197.9	19,581
Subtotal	1,600.0	159,901	(122.1)	(12,382)	1,477.9	147,519
Perpetual Bonds						
2019 Undated Capital Bonds (Series 1)[6]	–	39,992	–	–	–	39,992
2020 Undated Capital Bonds (Series 1)[7]	–	–	–	39,990	–	39,990
2020 Undated Capital Bonds (Series 2)[8]	–	–	–	29,994	–	29,994
2020 Undated Capital Bonds (Series 3)[9]	–	–	–	19,995	–	19,995
Subtotal	–	39,992	–	89,979	–	129,971
Total		199,893		77,597		277,490

(1) With the approvals of the relevant regulatory authorities in China, the Bank redeemed all 320 million Domestic Preference Shares (First Tranche) on 23 November 2020. The Bank fully paid the nominal value of the Domestic Preference Shares and the dividends declared but not yet distributed, totalling RMB33.92 billion.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

37 Share capital, capital reserve, treasury shares and other equity instruments (Continued)

37.4 Other equity instruments (Continued)

(2) With the approvals of the relevant regulatory authorities in China, the Bank issued 5.5% non-cumulative Domestic Preference Shares on 13 March 2015, in the aggregate par value of RMB28 billion. Each Domestic Preference Share has a par value of RMB100 and a total number of 280 million Domestic Preference Shares were issued.

The Domestic Preference Shares have no maturity date. However, subject to the satisfaction of the redemption conditions and having obtained the prior approval of the CBIRC, the Bank may at its discretion redeem all or part of the Domestic Preference Shares on 13 March 2020 or any dividend payment date thereafter at the redemption price which is the sum of the par value of the Domestic Preference Share and the dividends declared but not yet distributed.

(3) With the approvals of the relevant regulatory authorities in China, the Bank issued non-cumulative Domestic Preference Shares on 24 June 2019, in the aggregate par value of RMB73 billion. Each Domestic Preference Share has a par value of RMB100 and a total number of 730 million Domestic Preference Shares were issued. The dividend rate of the Preference Shares for the first five years is 4.50%, which is reset every 5 years.

The Domestic Preference Shares have no maturity date. However, subject to the satisfaction of the redemption conditions and having obtained the prior approval of the CBIRC, the Bank may at its discretion redeem all or part of the Domestic Preference Shares after 27 June 2024 at the redemption price which is the sum of the par value of the Domestic Preference Share and the dividends declared but not yet distributed.

(4) With the approvals of the relevant regulatory authorities in China, the Bank issued non-cumulative Domestic Preference Shares on 26 August 2019, in the aggregate par value of RMB27 billion. Each Domestic Preference Share has a par value of RMB100 and a total number of 270 million Domestic Preference Shares were issued. The dividend rate of the Preference Shares for the first five years is 4.35%, which is reset every 5 years.

The Domestic Preference Shares have no maturity date. However, subject to the satisfaction of the redemption conditions and having obtained the prior approval of the CBIRC, the Bank may at its discretion redeem all or part of the Domestic Preference Shares after 29 August 2024 at the redemption price which is the sum of the par value of the Domestic Preference Share and the dividends declared but not yet distributed.

(5) With the approvals of the relevant regulatory authorities in China, the Bank issued the US Dollar settled non-cumulative Offshore Preference Shares on 4 March 2020. Each Offshore Preference Share has a par value of RMB100 and 197,865,300 Offshore Preference Shares were issued in total. The aggregate par value of the Offshore Preference Shares is USD2.820 billion as converted into USD using the fixed exchange rate (USD1.00 to RMB7.0168). The initial annual dividend rate is 3.60% and is subsequently subject to reset per agreement, but in no case shall exceed 12.15%. The dividends are calculated and paid in US Dollars.

The Offshore Preference Shares have no maturity date. However, subject to the satisfaction of the redemption conditions and having obtained the prior approval of the CBIRC, the Bank may at its discretion redeem all or part of the Offshore Preference Shares on 4 March 2025 or any dividend payment date thereafter at the redemption price which is the sum of the par value of the Offshore Preference Shares and the dividends declared but not yet distributed, as calculated and paid in US Dollars.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

37 Share capital, capital reserve, treasury shares and other equity instruments (Continued)

37.4 Other equity instruments (Continued)

Save for such dividend at the agreed dividend payout ratio, the holders of the above preference shares shall not be entitled to share in the distribution of the remaining profits of the Bank together with the holders of the ordinary shares. The above preference shares are paid with non-cumulative dividends. The Bank shall be entitled to cancel any dividend on the preference shares, and such cancellation shall not constitute a default. However, the Bank shall not distribute profits to ordinary shareholders until resumption of the full payment of dividends on the preference shares. Upon the occurrence of a trigger event for the compulsory conversion of preference shares into ordinary shares per agreement, the Bank shall convert the preference shares into ordinary shares in whole or in part after reporting to the CBIRC for its examination and approval decision.

Capital raised from the issuance of the above preference shares, after deduction of transaction costs, was wholly used to replenish the Bank's additional tier 1 capital and to increase its capital adequacy ratio.

(6) With the approvals of the relevant regulatory authorities in China, the Bank issued RMB40 billion write-down undated capital bonds (the "Bonds") in the domestic interbank bond market on 25 January 2019 and completed the issuance on 29 January 2019. The denomination of the Bonds is RMB100 each, and the annual coupon rate of the Bonds for the first five years is 4.50%, which is reset every 5 years.

(7) With the approvals of the relevant regulatory authorities in China, the Bank issued RMB40 billion write-down undated capital bonds (the "Bonds") in the domestic interbank bond market on 28 April 2020 and completed the issuance on 30 April 2020. The denomination of the Bonds is RMB100 each, and the annual coupon rate of the Bonds for the first five years is 3.40%, which is reset every 5 years.

(8) With the approvals of the relevant regulatory authorities in China, the Bank issued RMB30 billion write-down undated capital bonds (the "Bonds") in the domestic interbank bond market on 13 November 2020 and completed the issuance on 17 November 2020. The denomination of the Bonds is RMB100 each, and the annual coupon rate of the Bonds for the first five years is 4.55%, which is reset every 5 years.

(9) With the approvals of the relevant regulatory authorities in China, the Bank issued RMB20 billion write-down undated capital bonds (the "Bonds") in the domestic interbank bond market on 10 December 2020 and completed the issuance on 14 December 2020. The denomination of the Bonds is RMB100 each, and the annual coupon rate of the Bonds for the first five years is 4.70%, which is reset every 5 years.

The duration of the above bonds is the same as the period of continuing operation of the Bank. Subject to the satisfaction of the redemption conditions and having obtained the prior approval of the CBIRC, the Bank may redeem the above bonds in whole or in part on each distribution payment date 5 years after the issuance date of the above bonds. Upon the occurrence of a trigger event for the write-downs, with the consent of the CBIRC and without the consent of the bondholders, the Bank has the right to write down all or part of the above bonds issued and existing at that time in accordance with the total par value. The claims of the holders of the above bonds will be subordinated to the claims of depositors, general creditors and subordinated creditors; and shall rank in priority to the claims of shareholders and will rank pari passu with the claims under any other additional tier 1 capital instruments of the Bank that rank pari passu with the above bonds.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

37 Share capital, capital reserve, treasury shares and other equity instruments (Continued)

37.4 Other equity instruments (Continued)

The above bonds are paid with non-cumulative interest. The Bank shall have the right to cancel distributions on the above bonds in whole or in part and such cancellation shall not constitute a default. The Bank may at its discretion utilise the proceeds from the cancelled distributions to meet other obligations of maturing debts. But the Bank shall not distribute profits to ordinary shareholders until the resumption of full interest payment.

Capital raised from the issuance of the above bonds, after deduction of transaction costs, was wholly used to replenish the Bank's additional tier 1 capital and to increase its capital adequacy ratio.

38 Statutory reserves, general and regulatory reserves and undistributed profits

38.1 Statutory reserves

Under relevant PRC laws, the Bank is required to appropriate 10% of its net profit to non-distributable statutory surplus reserves. The appropriation to the statutory surplus reserves may cease when such reserves has reached 50% of the share capital. Subject to the approval of the equity holders, the statutory surplus reserves can be used for replenishing the accumulated losses or increasing the Bank's share capital. The statutory surplus reserves amount used to increase the share capital is limited to a level where the statutory surplus reserves after such capitalisation is not less than 25% of the share capital.

In accordance with a resolution of the Board of Directors dated 30 March 2021, the Bank appropriated 10% of the net profit for the year ended 31 December 2020 to the statutory surplus reserves, amounting to RMB17,720 million (2019: RMB16,576 million).

In addition, some operations in Hong Kong, Macao, Taiwan and other countries and regions are required to appropriate certain percentages of their net profits to the statutory surplus reserves as stipulated by local banking authorities.

38.2 General and regulatory reserves

According to Caijin [2012] No. 20 *Requirements on Impairment Allowance for Financial Institutions* (the "Requirement"), issued by the MOF, in addition to the impairment allowance, the Bank establishes a general reserve to address unidentified potential impairment losses. The general reserve as a distribution of profits, being part of the equity, should not be less than 1.5% of the aggregate amount of risk assets as defined by the Requirement, and the minimum threshold can be accumulated over a period of no more than five years.

In accordance with a resolution dated 30 March 2021, the Board of Directors of the Bank approved the appropriation of RMB20,822 million to the general reserve for the year ended 31 December 2020 (2019: RMB17,863 million).

The regulatory reserve mainly refers to the reserve amount set aside by BOC Hong Kong (Group) Limited ("BOCHK Group"), a subsidiary of the Group, for general banking risks, including future losses or other unforeseeable risks. As at 31 December 2020 and 2019, the reserve amounts set aside by BOCHK Group were RMB3,105 million and RMB6,773 million, respectively.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

38 Statutory reserves, general and regulatory reserves and undistributed profits (Continued)

38.3 Dividends

Dividends for Ordinary Shares

An ordinary share dividend of RMB56,228 million (before tax) in respect of the profit for the year ended 31 December 2019 was approved by the shareholders of the Bank at the Annual General Meeting held on 30 June 2020 and was distributed during the year.

An ordinary share dividend of RMB1.97 per ten shares (before tax) in respect of the profit for the year ended 31 December 2020 (2019: RMB1.91 per ten shares), amounting to a total dividend of RMB57,994 million (before tax), based on the number of shares issued as at 31 December 2020 will be proposed for approval at the Annual General Meeting to be held on 20 May 2021. The dividend payable is not reflected in the liabilities of the financial statements.

Dividends for Preference Shares

The dividend distribution of Domestic Preference Shares (Second Tranche) amounting to RMB1,540 million (before tax) was approved by the Board of Directors of the Bank at the Board Meeting held on 13 January 2020 and the dividend of Domestic Preference Shares (Second Tranche) was distributed on 13 March 2020.

The dividend distribution of Domestic Preference Shares (Third Tranche and Fourth Tranche) was approved by the Board of Directors of the Bank at the Board Meeting held on 29 April 2020. The dividend of Domestic Preference Shares (Third Tranche) amounting to RMB3,285 million (before tax) was distributed on 29 June 2020. The dividend of Domestic Preference Shares (Fourth Tranche) amounting to RMB1,174.5 million (before tax) was distributed on 31 August 2020.

The dividend distribution of Domestic Preference Shares (First Tranche and Second Tranche) was approved by the Board of Directors of the Bank on 30 August 2020. The dividend of Domestic Preference Shares (First Tranche) amounting to RMB1,920 million (before tax) was distributed on 23 November 2020. The dividend of Domestic Preference Shares (Second Tranche) amounting to RMB1,540 million (before tax) was distributed on 15 March 2021.

The dividend distribution of Offshore Preference Shares (Second Tranche) was approved by the Board of Directors of the Bank at the Board Meeting held on 30 October 2020. The dividend of Offshore Preference Shares (Second Tranche) amounting to USD102 million (after tax) was distributed on 4 March 2021.

Others

The Bank distributed the interest on the 2019 Undated Capital Bonds (Series 1) amounting to RMB1,800 million on 3 February 2020.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

39 Non-controlling interests

Non-controlling interests of the subsidiaries of the Group are as follows:

	As at 31 December	
	2020	2019
BOC Hong Kong (Group) Limited	**94,489**	96,257
Bank of China Group Investment Limited	**11,069**	10,531
Tai Fung Bank Limited	**9,878**	10,180
Other	**8,982**	8,027
Total	**124,418**	124,995

40 Changes in consolidation

On 18 June 2020, the Bank set up a majority-owned subsidiary, BOC Financial Leasing Co., Ltd. ("BOCL"), which mainly engages in the financial leasing business. As at 31 December 2020, the Bank held 92.59% of the total capital of BOCL.

41 Contingent liabilities and commitments

41.1 Legal proceedings and arbitrations

As at 31 December 2020, the Group was involved in certain litigation and arbitration cases in the regular course of its business. In addition, in terms of the range and scale of its international operations, the Group may face a variety of legal proceedings within different jurisdictions. As at 31 December 2020, provisions of RMB725 million (31 December 2019: RMB872 million) were made based on court judgements or the advice of counsel (Note V.36). After consulting legal professionals, the senior management of the Group believes that at the current stage these legal proceedings and arbitrations will not have a material impact on the financial position or operations of the Group.

41.2 Assets pledged

Assets pledged by the Group as collateral mainly for placement, repurchase, short positions, derivative transactions with other banks and financial institutions and for local statutory requirements are set forth in the table below. These transactions are conducted under standard and normal business terms.

	As at 31 December	
	2020	2019
Debt securities	**666,236**	787,929
Bills	**2,127**	387
Total	**668,363**	788,316

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

41 Contingent liabilities and commitments (Continued)

41.3 Collateral accepted

The Group accepts securities as collateral that are permitted to be sold or re-pledged in connection with reverse repurchase and derivative agreements with banks and other financial institutions. As at 31 December 2020, the fair value of collateral received from banks and other financial institutions accepted by the Group amounted to RMB151,204 million (31 December 2019: RMB22,067 million). As at 31 December 2020, the fair value of the collateral that the Group had sold or re-pledged, but was obligated to return, was RMB797 million (31 December 2019: RMB2,271 million). These transactions are conducted under standard terms in the normal course of business.

41.4 Capital commitments

	As at 31 December	
	2020	2019
Property and equipment		
— Contracted but not provided for	**46,723**	53,752
— Authorised but not contracted for	**3,468**	1,215
Intangible assets		
— Contracted but not provided for	**1,242**	1,048
— Authorised but not contracted for	**199**	66
Investment properties		
— Contracted but not provided for	**1,252**	1,231
Total	**52,884**	57,312

41.5 Operating leases

The Group acts as lessor in operating leases principally through aircraft leasing undertaken by its subsidiary BOC Aviation Limited. Under irrevocable operating lease contracts, as at 31 December 2020, the minimum lease payments which will be received by the Group under the operating leases for existing aircraft and aircraft yet to be delivered amounted to RMB13,132 million not later than one year (31 December 2019: RMB12,763 million), RMB54,622 million later than one year and not later than five years (31 December 2019: RMB51,384 million) and RMB55,771 million later than five years (31 December 2019: RMB50,746 million).

41.6 Treasury bonds redemption commitments

The Bank is entrusted by the MOF to underwrite certain Treasury bonds. The investors of these Treasury bonds have a right to redeem the bonds at any time prior to maturity and the Bank is committed to redeem these Treasury bonds. The MOF will not provide funding for the early redemption of these Treasury bonds on a back-to-back basis but will pay interest and repay the principal at maturity. The redemption price is the principal value of the bonds plus unpaid interest in accordance with the early redemption arrangement.

As at 31 December 2020, the outstanding principal value of the Treasury bonds sold by the Bank under obligation to redeem prior to maturity amounted to RMB55,597 million (31 December 2019: RMB59,746 million). The original maturities of these Treasury bonds vary from 3 to 5 years and management expects the amount of redemption through the Bank prior to the maturity dates of these bonds will not be material.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

41 Contingent liabilities and commitments (Continued)

41.7 Credit commitments

	As at 31 December	
	2020	2019
Loan commitments[1]		
— with an original maturity of less than 1 year	**262,001**	244,733
— with an original maturity of 1 year or above	**1,417,031**	1,360,065
Undrawn credit card limits	**1,060,580**	1,010,283
Letters of guarantee issued[2]	**1,035,517**	1,049,629
Bank bill acceptance	**301,602**	259,373
Letters of credit issued	**154,181**	133,571
Accepted bills of exchange under letters of credit	**81,817**	92,440
Other	**178,944**	192,476
Total[3]	**4,491,673**	4,342,570

(1) Loan commitments mainly represent undrawn loan facilities agreed and granted to customers. Unconditionally revocable loan commitments are not included in loan commitments. As at 31 December 2020, the unconditionally revocable loan commitments of the Group amounted to RMB334,384 million (31 December 2019: RMB299,556 million).

(2) Letters of guarantee issued mainly include financial guarantees and performance guarantees. The obligations on the Group to make payments are dependent on the outcome of a future event.

(3) Risk-weighted assets for credit risk of credit commitments

The risk-weighted assets for credit risk of the Group are calculated in accordance with the *Capital Rules for Commercial Banks (Provisional)* and other relevant regulations under the advanced capital measurement approaches. The amounts are determined by the creditworthiness of the counterparties, the maturity characteristics of each type of contract and other factors.

	As at 31 December	
	2020	2019
Credit commitments	**1,186,895**	1,206,469

41.8 Underwriting obligations

As at 31 December 2020, there was no firm commitment in underwriting securities of the Group (31 December 2019: Nil).

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

42 Note to the consolidated statement of cash flows

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise the following balances with an original maturity of less than three months:

	As at 31 December	
	2020	2019
Cash and due from banks and other financial institutions	**453,505**	347,724
Balances with central banks	**587,113**	541,837
Placements with and loans to banks and other financial institutions	**361,872**	393,674
Financial investments	**92,378**	62,657
Total	**1,494,868**	1,345,892

43 Related party transactions

43.1 CIC was established on 29 September 2007 with registered capital of RMB1,550 billion. CIC is a wholly State-owned company engaging in foreign currency investment management. The Group is subject to the control of the State Council of the PRC government through CIC and its wholly owned subsidiary, Huijin.

The Group enters into banking transactions with CIC in the normal course of its business on commercial terms.

43.2 Transactions with Huijin and companies under Huijin

(1) General information of Huijin

Central Huijin Investment Ltd.

Legal representative	PENG Chun
Registered capital	RMB828,209 million
Location of registration	Beijing
Capital shares in the Bank	64.02%
Voting rights in the Bank	64.02%
Nature	Wholly State-owned company
Principal activities	Investment in major State-owned financial institutions on behalf of the State Council; other related businesses approved by the State Council
Unified social credit code	911000007109329615

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

43 Related party transactions (Continued)

43.2 Transactions with Huijin and companies under Huijin (Continued)

(2) *Transactions with Huijin*

The Group enters into banking transactions with Huijin in the normal course of its business on commercial terms. Purchase of the bonds issued by Huijin was in the ordinary course of business and in compliance with the requirements of the related regulations and corporate governance.

Transaction balances

	As at 31 December	
	2020	2019
Debt securities	**43,659**	24,963
Due to Huijin	**(18,047)**	(2,913)

Transaction amounts

	Year ended 31 December	
	2020	2019
Interest income	**1,028**	987
Interest expense	**(229)**	(320)

(3) *Transactions with companies under Huijin*

Companies under Huijin include its equity interests in subsidiaries, associates and joint ventures in certain other bank and non-bank entities in the PRC. The Group enters into banking transactions with these companies in the normal course of business on commercial terms which include mainly the purchase and sale of debt securities, money market transactions and derivative transactions.

In the ordinary course of business, main transactions that the Group entered into with the affiliates of the parent company are as follows:

Transaction balances

	As at 31 December	
	2020	2019
Due from banks and other financial institutions	**126,104**	59,332
Placements with and loans to banks and other financial institutions	**144,640**	115,781
Financial investments	**390,508**	395,205
Derivative financial assets	**18,863**	7,655
Loans and advances to customers	**85,650**	45,646
Due to customers, banks and other financial institutions	**(256,582)**	(185,610)
Placements from banks and other financial institutions	**(137,131)**	(244,059)
Derivative financial liabilities	**(21,294)**	(5,459)
Credit commitments	**32,177**	14,502

Transaction amounts

	Year ended 31 December	
	2020	2019
Interest income	**12,561**	17,021
Interest expense	**(4,313)**	(9,679)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

43 Related party transactions (Continued)

43.2 Transactions with Huijin and companies under Huijin (Continued)

(3) Transactions with companies under Huijin (Continued)

Interest rate ranges

	Year ended 31 December	
	2020	2019
Due from banks and other financial institutions	**0.00%–5.20%**	0.00%–5.00%
Placements with and loans to banks and other financial institutions	**-0.21%–27.00%**	-0.20%–4.50%
Financial investments	**-0.05%–5.98%**	0.00%–5.98%
Loans and advances to customers	**0.18%–9.91%**	1.44%–6.05%
Due to customers, banks and other financial institutions	**-0.50%–6.00%**	0.00%–3.58%
Placements from banks and other financial institutions	**-0.50%–4.80%**	-0.55%–9.50%

43.3 Transactions with government authorities, agencies, affiliates and other State-controlled entities

The State Council of the PRC government directly and indirectly controls a significant number of entities through its government authorities, agencies, affiliates and other State-controlled entities. The Group enters into extensive banking transactions with these entities in the normal course of business on commercial terms.

Transactions conducted with government authorities, agencies, affiliates and other State-controlled entities include the purchase and redemption of investment securities issued by government agencies, underwriting and distribution of treasury bonds issued by government agencies through the Group's branch network, foreign exchange transactions and derivative transactions, lending, provision of credit and guarantees and deposit placing and taking.

43.4 Transactions with associates and joint ventures

The Group enters into banking transactions with associates and joint ventures in the normal course of business on commercial terms. These include loans and advances, deposit taking and other normal banking businesses. In the ordinary course of business, the main transactions that the Group entered into with associates and joint ventures are as follows:

Transaction balances

	As at 31 December	
	2020	2019
Loans and advances to customers	**18,502**	1,373
Due to customers, banks and other financial institutions	**(10,641)**	(6,046)
Credit commitments	**23,144**	76

Transaction amounts

	Year ended 31 December	
	2020	2019
Interest income	**772**	41
Interest expense	**(316)**	(220)

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

43 Related party transactions (Continued)

43.4 Transactions with associates and joint ventures (Continued)

The general information of principal associates and joint ventures is as follows:

Name	Place of incorporation/ establishment	Unified Social Credit Code	Effective equity held (%)	Voting right (%)	Paid-in capital (in millions)	Principal business
China Insurance Investment Fund CO., Ltd.	PRC	91110102MA01W7X36U	25.70	25.70	RMB45,000	Investment in non-securities business; equity investment; investment management and consulting
BOC International (China) Co., Ltd.	PRC	91310000736650364G	33.42	33.42	RMB2,778	Securities brokerage; securities investment consulting; financial advisory services related to securities trading and securities investment activities; securities underwriting and sponsorship; securities proprietary business; securities asset management; securities investment fund sales agency; margin financing and securities lending; distribution of financial products; management of publicly raised securities investment funds
Ying Kou Port Group CORP.	PRC	91210800121119657C	8.86	Note (1)	RMB20,000	Terminals and other port facilities services, cargo handling, warehousing services, ship and port services, leasing and maintenance services of port facilities and equipment and port machinery, etc.
CGN Phase I Private Equity Fund Company Limited	PRC	91110000717827478Q	20.00	20.00	RMB100	Investment in nuclear power projects and related industries; asset management; investment consulting
Graceful Field Worldwide Limited	BVI	N/A	80.00	Note (1)	USD0.0025	Investment
Sichuan Lutianhua Co., Ltd.	PRC	91510500711880825C	16.44	Note (1)	RMB1,568	Chemical industry, mainly produces and sells all kinds of fertilizers and chemical products
Wkland Investments II Limited	BVI	N/A	50.00	50.00	USD0.00002	Investment holding
Wuhu Yuanzhong Jiaying Investment Limited Partnership	PRC	91340202MA2TBMDD6Q	70.00	Note (1)	N/A	Investment consulting; equity investment
Wuhu Yinsheng Special Steel Investment Management Limited Partnership	PRC	91340202MA2RENJEX9	21.20	28.57	N/A	Equity investment; industrial investment
Guangdong Small and Medium Enterprises Equity Investment Fund Company Limited	PRC	91440000564568961E	40.00	40.00	RMB1,578	Investment

(1) In accordance with the respective articles of association, the Group has significant influence or joint control over these companies.

43.5 Transactions with the Annuity Plan

Apart from the obligations for defined contributions to the Annuity Fund and normal banking transactions, no other transactions were conducted between the Group and the Annuity Fund for the years ended 31 December 2020 and 2019.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

43 Related party transactions (Continued)

43.6 Transactions with key management personnel

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including Directors and Executive Officers.

The Group enters into banking transactions with key management personnel in the normal course of business. During the years ended 31 December 2020 and 2019, there were no material transactions and balances with key management personnel on an individual basis.

The key management compensation for the years ended 31 December 2020 and 2019 comprises:

	Year ended 31 December	
	2020	2019
Compensation for short-term employment benefits[(1)]	**11**	14
Compensation for post-employment benefits	**1**	1
Total	**12**	15

(1) The total compensation package for the key management personnel for the year ended 31 December 2020 has not yet been finalised in accordance with the regulations of the PRC relevant authorities. The amount of the compensation not provided for is not expected to have a significant impact on the Group's 2020 financial statements. The final compensation will be disclosed in a separate announcement when determined.

43.7 Transactions with Connected Natural Persons

As at 31 December 2020, the Bank's balances of loans to the connected natural persons as defined in the *Administration of Connected Transactions between Commercial Banks and Their Insiders and Shareholders* and *the Administrative Measures for the Disclosure of Information of Listed Companies* totalled approximately RMB365 million (31 December 2019: RMB410 million) and RMB20 million (31 December 2019: RMB23 million) respectively.

43.8 Transactions with subsidiaries

The main transactions with subsidiaries are as follows:

Transaction balances

	As at 31 December	
	2020	2019
Due from banks and other financial institutions	**31,487**	21,908
Placements with and loans to banks and other financial institutions	**184,792**	152,839
Due to banks and other financial institutions	**(190,167)**	(88,195)
Placements from banks and other financial institutions	**(28,057)**	(52,285)

Transaction amounts

	Year ended 31 December	
	2020	2019
Interest income	**2,304**	1,569
Interest expense	**(1,209)**	(2,165)

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

43 Related party transactions (Continued)

43.8 Transactions with subsidiaries (Continued)

The general information of the principal subsidiaries is as follows:

Name	Place of incorporation and operation	Date of incorporation/ establishment	Paid-in capital (in millions)	Effective equity held (%)	Voting right (%)	Principal business
Directly held[1]						
BOC Hong Kong (Group) Limited	Hong Kong	12 September 2001	HKD34,806	100.00	100.00	Holding company
BOC International Holdings Limited[3]	Hong Kong	10 July 1998	HKD3,539	100.00	100.00	Investment banking
Bank of China Group Insurance Company Limited	Hong Kong	23 July 1992	HKD3,749	100.00	100.00	Insurance services
Bank of China Group Investment Limited	Hong Kong	18 May 1993	HKD34,052	100.00	100.00	Investment holding
Tai Fung Bank Limited	Macao	1942	MOP1,000	50.31	50.31	Commercial banking
Bank of China (UK) Limited	United Kingdom	24 September 2007	GBP250	100.00	100.00	Commercial banking
BOC Insurance Company Limited	Beijing	5 January 2005	RMB4,535	100.00	100.00	Insurance services
BOC Financial Asset Investment Company Limited	Beijing	16 November 2017	RMB10,000	100.00	100.00	Debt-to-equity swaps and other supporting businesses, etc.
BOC Wealth Management Co., Ltd.	Beijing	1 July 2019	RMB10,000	100.00	100.00	Issuance of wealth management products, investment and management of entrusted assets for investors
BOC Financial Leasing Co., Ltd.	Chongqing	18 June 2020	RMB10,800	92.59	92.59	Financial leasing
Indirectly held						
BOC Hong Kong (Holdings) Limited[2]	Hong Kong	12 September 2001	HKD52,864	66.06	66.06	Holding company
Bank of China (Hong Kong) Limited[3]	Hong Kong	16 October 1964	HKD43,043	66.06	100.00	Commercial banking
BOC Credit Card (International) Limited	Hong Kong	9 September 1980	HKD565	66.06	100.00	Credit card services
BOC Group Trustee Company Limited[3]	Hong Kong	1 December 1997	HKD200	77.60	100.00	Provision of trustee services
BOC Aviation Limited[2]	Singapore	25 November 1993	USD1,158	70.00	70.00	Aircraft leasing

(1) These directly held principal subsidiaries are unlisted companies. All holdings are in the ordinary share capital of the undertaking concerned, and the ability of the subsidiaries to transfer funds to the Group and the Bank is not restricted.

(2) BOCHK (Holdings) and BOC Aviation Limited are listed on the Stock Exchange of Hong Kong Limited.

(3) BOCHK and BOC International Holdings Limited ("BOCI"), in which the Group holds 66.06% and 100% of their equity interests, respectively, hold 66% and 34% equity interests of BOC Group Trustee Company Limited, respectively.

For certain subsidiaries listed above, the discrepancy between the percentage of voting rights and the percentage of effective equity holding is mainly due to the impact of indirect holdings.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 Segment reporting

The Group manages the business from both geographic and business perspectives. From the geographic perspective, the Group operates in three principal regions: Chinese mainland; Hong Kong, Macao and Taiwan; and other countries and regions. From the business perspective, the Group provides services through six main business segments: corporate banking, personal banking, treasury operations, investment banking, insurance and other operations.

The measurement of segment assets, liabilities, income, expenses, results and capital expenditure is based on the Group's accounting policies. The segment information presented includes items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Funding is provided to and from individual business segments through treasury operations as part of the asset and liability management process. The pricing of these transactions is based on market rates. The transfer price takes into account the specific features and maturities of the product. Internal transactions are eliminated on consolidation. The Group regularly examines the transfer price and adjusts the price to reflect the current situation.

Geographical segments

Chinese mainland — Corporate banking, personal banking, treasury operations, insurance services, etc. are performed in the Chinese mainland.

Hong Kong, Macao and Taiwan — Corporate banking, personal banking, treasury operations, investment banking and insurance services are performed in Hong Kong, Macao and Taiwan. The business of this segment is centralised in BOCHK Group.

Other countries and regions — Corporate and personal banking services are provided in other countries and regions. Significant locations include New York, London, Singapore and Tokyo.

Business segments

Corporate banking — Services to corporate customers, government authorities and financial institutions, including current accounts, deposits, overdrafts, loans, trade-related products and other credit facilities, foreign exchange, derivative products and wealth management products.

Personal banking — Services to retail customers including savings deposits, personal loans, credit cards and debit cards, payments and settlements, wealth management products and funds and insurance agency services.

Treasury operations — Consisting of foreign exchange transactions, customer-based interest rate and foreign exchange derivative transactions, money market transactions, proprietary trading and asset and liability management. The results of this segment include the inter-segment funding income and expenses, results from interest-bearing assets and liabilities; and foreign currency translation gains and losses.

Investment banking — Consisting of debt and equity underwriting and financial advisory, sales and trading of securities, stock brokerage, investment research and asset management services, and private equity investment services.

Insurance — Underwriting of general and life insurance business and insurance agency services.

Other — Other operations of the Group comprise investment holding and other miscellaneous activities, none of which constitutes a separately reportable segment.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 Segment reporting (Continued)

As at and for the year ended 31 December 2020

	Chinese mainland	Hong Kong, Macao and Taiwan BOCHK Group	Hong Kong, Macao and Taiwan Other	Hong Kong, Macao and Taiwan Subtotal	Other countries and regions	Elimination	Total
Interest income	673,082	44,499	29,847	74,346	32,125	(19,483)	760,070
Interest expense	(310,089)	(13,312)	(23,474)	(36,786)	(16,760)	19,483	(344,152)
Net interest income	362,993	31,187	6,373	37,560	15,365	–	415,918
Fee and commission income	67,187	11,355	7,846	19,201	6,085	(3,833)	88,640
Fee and commission expense	(9,030)	(2,413)	(2,126)	(4,539)	(1,950)	2,401	(13,118)
Net fee and commission income	58,157	8,942	5,720	14,662	4,135	(1,432)	75,522
Net trading (losses)/gains	(4,208)	5,793	5,293	11,086	1,177	–	8,055
Net gains on transfers of financial asset	4,965	4,063	142	4,205	377	–	9,547
Other operating income(1)	14,727	16,999	26,855	43,854	948	(924)	58,605
Operating income	436,634	66,984	44,383	111,367	22,002	(2,356)	567,647
Operating expenses(1)	(140,087)	(33,468)	(23,011)	(56,479)	(8,201)	2,356	(202,411)
Impairment losses on assets	(107,622)	(2,407)	(2,574)	(4,981)	(6,413)	–	(119,016)
Operating profit	188,925	31,109	18,798	49,907	7,388	–	246,220
Share of results of associates and joint ventures	(185)	(164)	507	343	–	–	158
Profit before income tax	188,740	30,945	19,305	50,250	7,388	–	246,378
Income tax expense							(41,282)
Profit for the year							205,096
Segment assets	19,434,557	2,762,985	1,529,898	4,292,883	2,090,165	(1,448,454)	24,369,151
Investments in associates and joint ventures	19,712	858	12,938	13,796	–	–	33,508
Total assets	19,454,269	2,763,843	1,542,836	4,306,679	2,090,165	(1,448,454)	24,402,659
Including: non-current assets(2)	119,001	27,626	170,894	198,520	9,939	(2,980)	324,480
Segment liabilities	17,753,122	2,520,219	1,396,881	3,917,100	2,017,915	(1,448,315)	22,239,822
Other segment items:							
Intersegment net interest (expense)/income	(4,886)	775	6,771	7,546	(2,660)	–	–
Intersegment net fee and commission income/(expense)	487	395	692	1,087	(142)	(1,432)	–
Capital expenditure	12,133	1,593	26,472	28,065	309	–	40,507
Depreciation and amortisation	19,056	1,972	6,097	8,069	838	(457)	27,506
Credit commitments	3,753,654	310,620	145,806	456,426	507,083	(225,490)	4,491,673

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 Segment reporting (Continued)

As at and for the year ended 31 December 2019

	Chinese mainland	Hong Kong, Macao and Taiwan: BOCHK Group	Hong Kong, Macao and Taiwan: Other	Hong Kong, Macao and Taiwan: Subtotal	Other countries and regions	Elimination	Total
Interest income	645,251	57,763	38,874	96,637	50,527	(34,408)	758,007
Interest expense	(310,586)	(23,679)	(33,123)	(56,802)	(35,042)	34,473	(367,957)
Net interest income	334,665	34,084	5,751	39,835	15,485	65	390,050
Fee and commission income	65,244	12,745	7,401	20,146	6,599	(3,890)	88,099
Fee and commission expense	(8,860)	(3,703)	(2,135)	(5,838)	(2,125)	2,536	(14,287)
Net fee and commission income	56,384	9,042	5,266	14,308	4,474	(1,354)	73,812
Net trading gains	13,405	7,564	4,720	12,284	2,874	–	28,563
Net gains on transfers of financial asset	2,541	725	83	808	128	–	3,477
Other operating income(1)	13,274	18,870	22,497	41,367	204	(737)	54,108
Operating income	420,269	70,285	38,317	108,602	23,165	(2,026)	550,010
Operating expenses(1)	(140,920)	(32,586)	(18,802)	(51,388)	(7,686)	1,725	(198,269)
Impairment losses on assets	(101,010)	(1,780)	351	(1,429)	286	–	(102,153)
Operating profit	178,339	35,919	19,866	55,785	15,765	(301)	249,588
Share of results of associates and joint ventures	(1)	(78)	1,136	1,058	–	–	1,057
Profit before income tax	178,338	35,841	21,002	56,843	15,765	(301)	250,645
Income tax expense							(48,754)
Profit for the year							201,891
Segment assets	17,915,544	2,673,071	1,528,724	4,201,795	2,062,659	(1,433,464)	22,746,534
Investments in associates and joint ventures	7,992	1,076	14,142	15,218	–	–	23,210
Total assets	17,923,536	2,674,147	1,542,866	4,217,013	2,062,659	(1,433,464)	22,769,744
Including: non-current assets(2)	119,684	30,670	162,255	192,925	9,788	(2,851)	319,546
Segment liabilities	16,413,115	2,428,157	1,397,456	3,825,613	1,987,643	(1,433,323)	20,793,048
Other segment items:							
Intersegment net interest (expense)/income	(6,817)	1,401	11,164	12,565	(5,813)	65	–
Intersegment net fee and commission income/(expense)	592	180	1,106	1,286	(523)	(1,355)	–
Capital expenditure	13,231	2,123	27,977	30,100	613	–	43,944
Depreciation and amortisation	17,295	1,768	5,688	7,456	785	(181)	25,355
Credit commitments	3,675,635	313,084	131,772	444,856	528,004	(305,925)	4,342,570

(1) Other operating income includes insurance premium income earned, and operating expenses include insurance benefits and claims.

(2) Non-current assets include property and equipment, investment properties, right-of-use assets and other long-term assets.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 Segment reporting (Continued)

As at and for the year ended 31 December 2020

	Corporate banking	Personal banking	Treasury operations	Investment banking	Insurance	Other	Elimination	Total
Interest income	340,794	294,134	190,422	1,888	3,525	4,053	(74,746)	760,070
Interest expense	(156,596)	(111,965)	(142,905)	(403)	(105)	(7,116)	74,938	(344,152)
Net interest income/(expense)	184,198	182,169	47,517	1,485	3,420	(3,063)	192	415,918
Fee and commission income	30,304	37,241	15,935	5,871	1	2,340	(3,052)	88,640
Fee and commission expense	(1,284)	(6,259)	(2,631)	(1,800)	(3,514)	(131)	2,501	(13,118)
Net fee and commission income/(expense)	29,020	30,982	13,304	4,071	(3,513)	2,209	(551)	75,522
Net trading gains/(losses)	2,326	1,097	(1,954)	268	2,793	3,571	(46)	8,055
Net gains on transfers of financial asset	1,215	102	7,980	1	243	6	–	9,547
Other operating income	831	7,284	1,039	287	31,962	20,402	(3,200)	58,605
Operating income	217,590	221,634	67,886	6,112	34,905	23,125	(3,605)	567,647
Operating expenses	(63,314)	(78,897)	(17,445)	(2,996)	(33,270)	(10,157)	3,668	(202,411)
Impairment losses on assets	(79,872)	(29,136)	(8,223)	(12)	(49)	(1,789)	65	(119,016)
Operating profit	74,404	113,601	42,218	3,104	1,586	11,179	128	246,220
Share of results of associates and joint ventures	–	–	–	342	–	(119)	(65)	158
Profit before income tax	74,404	113,601	42,218	3,446	1,586	11,060	63	246,378
Income tax expense								(41,282)
Profit for the year								205,096
Segment assets	9,251,427	5,641,051	8,684,296	99,425	204,290	593,454	(104,792)	24,369,151
Investments in associates and joint ventures	–	–	–	5,585	–	27,989	(66)	33,508
Total assets	9,251,427	5,641,051	8,684,296	105,010	204,290	621,443	(104,858)	24,402,659
Segment liabilities	10,376,544	7,461,553	3,915,554	72,597	185,310	332,963	(104,699)	22,239,822
Other segment items:								
Intersegment net interest income/(expense)	20,712	52,337	(72,651)	310	14	(914)	192	–
Intersegment net fee and commission income/(expense)	627	1,759	114	(598)	(1,769)	417	(550)	–
Capital expenditure	3,620	4,137	192	179	116	32,263	–	40,507
Depreciation and amortisation	8,665	10,630	2,532	404	277	5,712	(714)	27,506
Credit commitments	3,242,275	1,249,398	–	–	–	–	–	4,491,673

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 Segment reporting (Continued)

As at and for the year ended 31 December 2019

	Corporate banking	Personal banking	Treasury operations	Investment banking	Insurance	Other	Elimination	Total
Interest income	357,678	265,845	204,435	2,096	3,009	4,036	(79,092)	758,007
Interest expense	(173,036)	(116,514)	(149,510)	(599)	(65)	(7,427)	79,194	(367,957)
Net interest income/(expense)	184,642	149,331	54,925	1,497	2,944	(3,391)	102	390,050
Fee and commission income	32,753	37,654	14,190	3,997	2	2,085	(2,582)	88,099
Fee and commission expense	(1,307)	(7,747)	(2,068)	(1,086)	(3,988)	(317)	2,226	(14,287)
Net fee and commission income/(expense)	31,446	29,907	12,122	2,911	(3,986)	1,768	(356)	73,812
Net trading gains	3,177	1,048	19,360	231	2,492	2,219	36	28,563
Net gains on transfers of financial asset	1,346	237	1,791	–	101	2	–	3,477
Other operating income	512	6,221	1,359	198	28,838	19,792	(2,812)	54,108
Operating income	221,123	186,744	89,557	4,837	30,389	20,390	(3,030)	550,010
Operating expenses	(64,142)	(76,833)	(19,210)	(2,487)	(29,209)	(9,429)	3,041	(198,269)
Impairment losses on assets	(84,109)	(16,824)	(736)	–	(10)	(474)	–	(102,153)
Operating profit	72,872	93,087	69,611	2,350	1,170	10,487	11	249,588
Share of results of associates and joint ventures	–	–	–	280	(12)	822	(33)	1,057
Profit before income tax	72,872	93,087	69,611	2,630	1,158	11,309	(22)	250,645
Income tax expense								(48,754)
Profit for the year								201,891
Segment assets	8,415,724	5,064,429	8,587,356	83,987	180,054	527,396	(112,412)	22,746,534
Investments in associates and joint ventures	–	–	–	4,870	–	18,406	(66)	23,210
Total assets	8,415,724	5,064,429	8,587,356	88,857	180,054	545,802	(112,478)	22,769,744
Segment liabilities	9,922,845	6,726,766	3,705,818	57,582	162,958	329,341	(112,262)	20,793,048
Other segment items:								
Intersegment net interest income/(expense)	27,877	48,737	(75,339)	419	30	(1,826)	102	–
Intersegment net fee and commission income/(expense)	698	1,521	48	(320)	(1,871)	278	(354)	–
Capital expenditure	4,120	4,631	219	193	122	34,659	–	43,944
Depreciation and amortisation	7,800	9,622	2,394	284	237	5,304	(286)	25,355
Credit commitments	3,157,694	1,184,876	–	–	–	–	–	4,342,570

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 Transfers of financial assets

The Group enters into transactions in the normal course of business by which it transfers recognised financial assets to third parties or to special purpose entities. In some cases where these transferred financial assets qualify for derecognition, the transfers may give rise to full or partial derecognition of the financial assets concerned. In other cases where the transferred assets do not qualify for derecognition as the Group has retained substantially all the risks and rewards of these assets, the Group continued to recognise the transferred assets.

Repurchase agreements

Transferred financial assets that do not qualify for derecognition mainly include debt securities held by counterparties as collateral under repurchase agreements and securities lent to counterparties under securities lending agreements. The counterparties are allowed to sell or re-pledge those securities in the absence of default by the Group, but have an obligation to return the securities upon maturity of the contract. If the value of securities increases or decreases, the Group may in certain circumstances, require or be required to pay additional cash collateral. The Group has determined that the Group retains substantially all the risks and rewards of these securities and therefore has not derecognised them. In addition, the Group recognises a financial liability for cash received as collateral.

The following table analyses the carrying amount of the above-mentioned financial assets transferred to third parties that did not qualify for derecognition and their associated financial liabilities:

	As at 31 December 2020		As at 31 December 2019	
	Carrying amount of transferred assets	Carrying amount of associated liabilities	Carrying amount of transferred assets	Carrying amount of associated liabilities
Repurchase agreements	13,248	13,550	528	503

Credit assets transfers

The Group enters into credit asset transfers in the normal course of business during which it transfers credit assets to special purpose entities which in turn issue asset-backed securities or fund shares to investors. The Group may acquire some asset-backed securities and fund shares at the subordinated tranche level, and accordingly, may retain parts of the risks and rewards of the transferred credit assets. The Group would determine whether or not to derecognise the associated credit assets by evaluating the extent to which it retains the risks and rewards of the assets.

With respect to the credit assets that were securitised and qualified for derecognition, the Group derecognised the transferred credit assets in their entirety. The corresponding total carrying amount of asset-backed securities held by the Group in the securitisation transactions was RMB760 million as at 31 December 2020 (31 December 2019: RMB956 million), which also approximates the Group's maximum exposure to loss.

For those in which the Group has neither transferred nor retained substantially all the risks and rewards of the transferred credit assets, and retained control of the credit assets, the transferred credit assets are recognised in the statement of financial position to the extent of the Group's continuing involvement. The carrying amount at the time of transfer of the original credit assets, which the Group determined that it has continuing involvement through acquiring some tranches, was RMB15,365 million for this year (2019: RMB49,985 million) and the carrying amount of assets that the Group continues to recognise in the statement of financial position was RMB15,244 million as at 31 December 2020 (31 December 2019: RMB15,250 million).

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

46 Interests in structured entities

The Group is principally involved with structured entities through financial investments, asset management and credit assets transfers. These structured entities generally finance the purchase of assets by issuing securities or by other means. The Group determines whether or not to consolidate these structured entities depending on whether the Group has control over them.

46.1 Interests in unconsolidated structured entities

The interests held by the Group in unconsolidated structured entities are set out as below:

Structured entities sponsored by the Group

In conducting the asset management business in Chinese mainland, the Group established various structured entities to provide customers specialised investment opportunities within narrow and well-defined objectives, including non-principal guaranteed wealth management products, publicly offered funds and asset management plans, and earned management fee, commission and custodian fees in return.

As at 31 December 2020, the balance of unconsolidated wealth management products sponsored by the Group amounted to RMB1,388,904 million (31 December 2019: RMB1,231,861 million). The balance of unconsolidated publicly offered funds and asset management plans sponsored by the Group amounted to RMB486,880 million (31 December 2019: RMB638,865 million).

For the year ended 31 December 2020, the above-mentioned management fee, commission and custodian fee amounted to RMB8,499 million (2019: RMB6,904 million).

As at 31 December 2020, the balance of interest and commission receivable held by the Group in the above-mentioned structured entities is not material. For the purpose of asset-liability management, wealth management products may require short-term financing from the Group and other banks. The Group is not contractually obliged to provide financing. After internal risk assessment, the Group may enter into repurchase and placement transactions with these wealth management products in accordance with market principles. For the year ended 31 December 2020, the maximum balance of such financing provided by the Group to the unconsolidated wealth management products was RMB132,205 million (2019: RMB180,050 million). Such financing provided by the Group was included in "Placements with and loans to banks and other financial institutions". As at 31 December 2020, the balance of the above transactions was RMB18,580 million (31 December 2019: RMB170,797 million). The maximum exposure to loss of those placements approximated to their carrying amount.

In July 2020, the regulatory authorities made a decision on extending the transition period for *the Guiding Opinions on Regulating Asset Management Business of Financial Institutions* to the end of 2021 and encouraged orderly disposal of legacy investments in a variety of ways. According to the regulatory requirements, the Group has promoted the disposal of the legacy investments in a pragmatic, efficient, actively and orderly way in order to achieve a smooth transition and stable development of the wealth management business.

In addition, the total carrying amount as at the transfer date of credit assets transferred by the Group into the unconsolidated structured entities was RMB1,230 million for the year ended 31 December 2020 (2019: RMB570 million). For the description of the portion of asset-backed securities issued by the above structured entities and held by the Group, refer to Note V.45.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

46 Interests in structured entities (Continued)

46.1 Interests in unconsolidated structured entities (Continued)

Structured entities sponsored by other financial institutions

The interests held by the Group in the structured entities sponsored by other financial institutions through direct investments are set out as below:

Structured entity type	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Financial assets at amortised cost	Total	Maximum exposure to loss
As at 31 December 2020					
Fund investments	**57,099**	**–**	**–**	**57,099**	**57,099**
Investment trusts and asset management plans	**2,914**	**–**	**8,407**	**11,321**	**11,321**
Asset-backed securitisations	**5,538**	**40,633**	**58,195**	**104,366**	**104,366**
As at 31 December 2019					
Fund investments	53,349	–	–	53,349	53,349
Investment trusts and asset management plans	2,396	–	8,163	10,559	10,559
Asset-backed securitisations	905	68,192	44,008	113,105	113,105

46.2 Consolidated structured entities

The Group's consolidated structured entities mainly consist of open-end funds, private equity funds, trusts for asset-backed securities, and special-purpose companies. The Group controls these entities because the Group has power over, is exposed to, or has rights to variable returns from its involvement with these entities and has the ability to use its power over these entities to affect the amount of the Group's returns. Except for providing financial guarantees for the companies established solely for financing purposes, the Group does not provide financial or other support to the other consolidated structured entities.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

47 Offsetting financial assets and financial liabilities

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements are analysed as below:

	Gross amounts of recognised financial assets	Gross amounts offset in the statement of financial position	Amounts presented in the statement of financial position	Amounts not set off in the statement of financial position		Net amount
				Financial instruments*	Cash collateral received	
As at 31 December 2020						
Derivatives	**52,457**	**–**	**52,457**	**(37,206)**	**(2,843)**	**12,408**
Reverse repo agreements	**3,858**	**–**	**3,858**	**(3,858)**	**–**	**–**
Other assets	**16,611**	**(12,035)**	**4,576**	**–**	**–**	**4,576**
Total	**72,926**	**(12,035)**	**60,891**	**(41,064)**	**(2,843)**	**16,984**
As at 31 December 2019						
Derivatives	37,020	–	37,020	(27,391)	(2,034)	7,595
Reverse repo agreements	5,408	–	5,408	(5,408)	–	–
Other assets	11,307	(10,344)	963	–	–	963
Total	53,735	(10,344)	43,391	(32,799)	(2,034)	8,558

Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements are analysed as below:

	Gross amounts of recognised financial liabilities	Gross amounts offset in the statement of financial position	Amounts presented in the statement of financial position	Amounts not set off in the statement of financial position		Net amount
				Financial instruments*	Cash collateral pledged	
As at 31 December 2020						
Derivatives	**62,412**	**–**	**62,412**	**(37,220)**	**(14,196)**	**10,996**
Repurchase agreements	**176**	**–**	**176**	**(176)**	**–**	**–**
Other liabilities	**13,006**	**(12,035)**	**971**	**–**	**–**	**971**
Total	**75,594**	**(12,035)**	**63,559**	**(37,396)**	**(14,196)**	**11,967**
As at 31 December 2019						
Derivatives	43,204	–	43,204	(27,904)	(6,433)	8,867
Repurchase agreements	503	–	503	(503)	–	–
Other liabilities	12,028	(10,344)	1,684	–	–	1,684
Total	55,735	(10,344)	45,391	(28,407)	(6,433)	10,551

* Including non-cash collateral.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

47 Offsetting financial assets and financial liabilities (Continued)

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously ("the offset criteria").

Derivatives and reverse repo/repurchase agreements included in the amounts are not set off in the statement of financial position where:

- the counterparty has an offsetting exposure with the Group and a master netting or similar arrangement (including ISDA master agreement and Global Master Netting Agreement) is in place with a right of setting off only in the event of default, insolvency or bankruptcy, or the offset criteria are otherwise not satisfied; and

- cash and non-cash collateral have been received/pledged in respect of the transactions described above.

48 The Bank's statement of financial position and changes in equity

48.1 The Bank's statement of financial position

	As at 31 December	
	2020	2019
ASSETS		
Cash and due from banks and other financial institutions	**735,856**	520,638
Balances with central banks	**1,895,772**	1,913,236
Placements with and loans to banks and other financial institutions	**1,065,541**	961,732
Government certificates of indebtedness for bank notes issued	**9,083**	8,698
Precious metals	**214,310**	197,914
Derivative financial assets	**132,878**	68,731
Loans and advances to customers, net	**12,286,706**	11,204,197
Financial investments	**4,422,013**	4,343,595
— financial assets at fair value through profit or loss	**264,746**	281,703
— financial assets at fair value through other comprehensive income	**1,315,891**	1,422,035
— financial assets at amortised cost	**2,841,376**	2,639,857
Investments in subsidiaries	**135,553**	123,658
Investments in associates and joint ventures	**7,731**	7,998
Consolidated structured entities	**202,275**	209,092
Property and equipment	**81,661**	83,403
Investment properties	**2,185**	2,338
Deferred income tax assets	**59,767**	45,284
Other assets	**112,152**	83,331
Total assets	**21,363,483**	19,773,845

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

48 The Bank's statement of financial position and changes in equity (Continued)

48.1 The Bank's statement of financial position (Continued)

	As at 31 December	
	2020	2019
LIABILITIES		
Due to banks and other financial institutions	**1,960,349**	1,672,571
Due to central banks	**838,054**	791,046
Bank notes in circulation	**9,226**	8,842
Placements from banks and other financial institutions	**393,521**	587,735
Financial liabilities held for trading	**571**	2,158
Derivative financial liabilities	**164,604**	61,919
Due to customers	**14,787,841**	13,788,093
Bonds issued	**1,140,777**	1,004,095
Current tax liabilities	**50,980**	50,851
Retirement benefit obligations	**2,199**	2,537
Deferred income tax liabilities	**567**	308
Other liabilities	**176,000**	149,809
Total liabilities	**19,524,689**	18,119,964
EQUITY		
Share capital	**294,388**	294,388
Other equity instruments	**277,490**	199,893
Capital reserve	**132,590**	132,627
Other comprehensive income	**17,712**	19,292
Statutory reserves	**188,832**	171,003
General and regulatory reserves	**261,170**	240,279
Undistributed profits	**666,612**	596,399
Total equity	**1,838,794**	1,653,881
Total equity and liabilities	**21,363,483**	19,773,845

Approved and authorised for issue by the Board of Directors on 30 March 2021.

LIU Liange	**WANG Wei**
Director	*Director*

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

48 The Bank's statement of financial position and changes in equity (Continued)

48.2 The Bank's statement of changes in equity

	Share capital	Other equity instruments	Capital reserve	Other comprehensive income	Statutory reserves	General and regulatory reserves	Undistributed profits	Total
As at 1 January 2020	294,388	199,893	132,627	19,292	171,003	240,279	596,399	1,653,881
Total comprehensive income	–	–	–	(1,590)	–	–	177,200	175,610
Appropriation to statutory reserves	–	–	–	–	17,829	–	(17,829)	–
Appropriation to general and regulatory reserves	–	–	–	–	–	20,891	(20,891)	–
Dividends	–	–	–	–	–	–	(68,257)	(68,257)
Capital contribution and reduction by other equity instruments holders	–	77,597	(37)	–	–	–	–	77,560
Other comprehensive income transferred to retained earnings	–	–	–	10	–	–	(10)	–
As at 31 December 2020	294,388	277,490	132,590	17,712	188,832	261,170	666,612	1,838,794

	Share capital	Other equity instruments	Capital reserve	Other comprehensive income	Statutory reserves	General and regulatory reserves	Undistributed profits	Total
As at 1 January 2019	294,388	99,714	138,832	8,596	154,313	222,462	526,127	1,444,432
Total comprehensive income	–	–	–	10,704	–	–	165,764	176,468
Appropriation to statutory reserves	–	–	–	–	16,690	–	(16,690)	–
Appropriation to general and regulatory reserves	–	–	–	–	–	17,817	(17,817)	–
Dividends	–	–	–	–	–	–	(60,993)	(60,993)
Capital contribution and reduction by other equity instruments holders	–	100,179	(6,205)	–	–	–	–	93,974
Other comprehensive income transferred to retained earnings	–	–	–	(8)	–	–	8	–
As at 31 December 2019	294,388	199,893	132,627	19,292	171,003	240,279	596,399	1,653,881

49 Events after the financial reporting date

Redemption of Domestic Preference Shares (Second Tranche)

With the approvals of the relevant regulatory authorities in China, the Bank redeemed all 280 million Domestic Preference Shares (Second Tranche) on 15 March 2021. The Bank fully paid the nominal value of the Domestic Preference Shares and the dividends declared but not yet distributed, totalling RMB29.54 billion.

Issuance of Tier 2 Capital Bonds

On 17 March 2021, the Bank issued fixed-rate Tier 2 capital bonds with a maturity of 10 years amounting 15 billion and fixed-rate Tier 2 capital bonds with a maturity of 15 years amounting 10 billion and completed the issuance on 19 March 2021. The issuance details have been set out in the Bank's announcement dated 19 March 2021.

VI FINANCIAL RISK MANAGEMENT

1 Overview

The Group's primary risk management objectives are to maximise value for equity holders while maintaining risk within acceptable parameters, optimising capital allocation and satisfying the requirements of the regulatory authorities, the Group's depositors and other stakeholders for the Group's prudent and stable development.

The Group has designed a series of risk management policies and has set up appropriate risk limits and controls to analyse, identify, monitor and report risks by means of relevant and up-to-date information systems. The Group regularly reviews and revises its risk management policies and systems to reflect changes in markets, products and emerging best practice.

The most significant types of risks to the Group are credit risk, market risk and liquidity risk. Market risk includes interest rate risk, currency risk and other price risk.

2 Financial risk management framework

The Board of Directors is responsible for establishing the overall risk appetite of the Group and reviewing and approving the risk management objectives and strategies.

Within this framework, the Group's senior management has the overall responsibility for managing all aspects of risks, including implementing risk management strategies, initiatives and credit policies and approving internal policies, measures and procedures related to risk management. The Risk Management Department, the Credit Management Department, the Financial Management Department and other relevant functional departments are responsible for monitoring financial risks.

The Group manages the risks at the branch level through direct reporting from the branches to the relevant departments responsible for risk management at the Head Office. Business line related risks are monitored through establishing specific risk management teams within the business departments. The Group monitors and controls risk management at subsidiaries by appointing members of their boards of directors and risk management committees as appropriate.

3 Credit risk

The Group takes on exposure to credit risk, which is the risk that a customer or counterparty will cause a financial loss for the Group by failing to discharge an obligation. Credit risk is one of the most significant risks for the Group's business.

Credit risk exposures arise principally in lending activities and debt securities investment activities. There is also credit risk in off-balance sheet financial instruments, such as derivatives, loan commitments, bill acceptance, letters of guarantee and letters of credit.

3.1 Credit risk measurement

(1) Loans and advances to customers and off-balance sheet commitments

The Credit Management Department is responsible for centrally monitoring and evaluating the credit risk of granting loans and advances to customers and off-balance sheet credit commitments, and reporting to senior management and the Board of Directors on a regular basis.

The Group mainly measures the credit risk of corporate loans and advances based on the PD and financial status of customers' agreed obligations, and considering the current credit exposure and possible future development trends. For individual customers, the Group uses a standard credit approval process to assess the credit risk of individual loans, and uses a scorecard model based on historical LGD to measure the credit risk of credit cards.

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.1 Credit risk measurement (Continued)

(1) Loans and advances to customers and off-balance sheet commitments (Continued)

For credit risk arising from off-balance sheet commitments, the Group manages the risks according to the characteristics of the products. These mainly include loan commitments, guarantees, bill acceptances and letters of credit. Loan commitments, guarantees, bill acceptances and letters of credit carry similar credit risk to loans. Documentary and commercial letters of credit are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions and are collateralised by the underlying shipment documents of goods to which they relate or deposits and are therefore assessed to have less credit risk than a direct loan. Besides, the Group monitors the term to maturity of off-balance sheet commitments and those with longer-terms are assessed to have greater credit risk than shorter-term commitments.

The Group measures and manages the credit quality of loans and advances to corporate and personal customers based on the *Guideline for Loan Credit Risk Classification* (the "Guideline"), which requires commercial banks to classify their corporate and personal loans into five categories: pass, special-mention, substandard, doubtful and loss, among which loans classified in the substandard, doubtful and loss categories are regarded as non-performing loans. Off-balance sheet commitments with credit exposures are also assessed and categorised with reference to the Guideline. For operations in Hong Kong, Macao, Taiwan and other countries and regions, where local regulations and requirements are more prudent than the Guideline, the credit assets are classified according to local regulations and requirements.

The five categories are defined as follows:

Pass: loans for which borrowers can honour the terms of the contracts, and there is no reason to doubt their ability to repay the principal and interest of loans in full and on a timely basis.

Special-mention: loans for which borrowers are still able to service the loans currently, although the repayment of loans might be adversely affected by some factors.

Substandard: loans for which borrowers' ability to service loans is apparently in question and borrowers cannot depend on their normal business revenues to pay back the principal and interest of loans. Certain losses might be incurred by the Group even when guarantees are executed.

Doubtful: loans for which borrowers cannot pay back the principal and interest of loans in full and significant losses will be incurred by the Group even when guarantees are executed.

Loss: principal and interest of loans cannot be recovered or only a small portion can be recovered after taking all possible measures and resorting to necessary legal procedures.

The Bank implemented a customer credit rating system based on the PD model. The PD model uses the principle of logistic regression to predict the PD for customers in the coming year. According to the calculated PD value, the risk rating of the customer is obtained through the relevant mapping relationship table. The Group conducts back-testing of the model according to the customer's actual default each year, so that the model calculation results are closer to the objective facts.

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.1 Credit risk measurement (Continued)

(1) Loans and advances to customers and off-balance sheet commitments (Continued)

The customer credit ratings in the internal model are based on four categories of A, B, C and D which are further classified into fifteen grades as AAA, AA, A, BBB+, BBB, BBB-, BB+, BB, BB-, B+, B-, CCC, CC, C, and D. Credit grading D equates to defaulted customers while the others are assigned to performing customers.

Five-category loan classifications and customer credit ratings are determined by the Head Office and tier 1 branch management under approved delegated authorities. The Bank performs centralised review on customer credit ratings and five-category loan classifications on an annual basis. Further, five-category loan classifications are re-examined on a quarterly basis. Adjustments are made to these classifications and ratings as necessary according to customers' operational and financial position.

The Group identifies credit risk collectively based on industry, geography and customer type. This information is monitored regularly by management.

Management periodically reviews various elements of the Group's credit risk management process, in the context of loan portfolio growth, the changing mix and concentration of assets, and the evolving risk profile of the credit portfolio. From time to time, in this regard, refinements are made to the Group's credit risk management processes to most effectively manage the effects of these changes on the Group's credit risk. These refinements include, among other things, adjustments to portfolio level controls, such as revisions to lists of approved borrowers, industry quotas and underwriting criteria. Where circumstances related to specific loans or a group of loans increase the Bank's credit risk, actions are taken, to the extent possible, to strengthen the Group's security position. The actions may include obtaining additional guarantors or collateral.

(2) Due from, placements with and loans to banks and other financial institutions

The Group manages the credit quality of due from, placements with and loans to banks and other financial institutions considering the size, financial position and the internal and external credit rating of banks and financial institutions. In response to adverse credit market conditions, various initiatives were implemented since 2008 to better manage and report credit risk, including establishing a special committee which meets periodically and on an ad hoc basis to discuss actions in response to market changes impacting the Group's exposure to credit risk, and formulating a watch list process over counterparty names at risk.

(3) Debt securities and derivatives

Credit risk within debt securities arises from exposure to movements in credit spreads, default rates and loss given default, as well as changes in the credit of underlying assets.

The Group manages the credit risk within debt securities by monitoring the external credit rating, such as Standard & Poor's ratings or their equivalents, of the security, the internal credit rating of the issuers of debt securities, and the credit quality of underlying assets of securitisation products (including review of default rates, prepayment rates), industry and sector performance, loss coverage ratios and counterparty risk, to identify exposure to credit risk.

The Group has established policies in managing the net open derivative positions by amounts and by maturity dates. At any time, the current credit exposure equals to the fair value of those derivatives where the fair value changes are favorable to the Group (i.e. positive Mark-to-Market amounts). Credit risk exposures for derivatives are included as part of the aggregated credit risk limit management for financial institutions and customers. Collaterals or other pledges of assets are not typically sought for these exposures.

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.2 Credit risk limit control and mitigation policies

The Group manages limits and controls concentrations of credit risk in particular, to individual customers and to industries.

(1) Credit risk limits and controls

(i) Loans and advances and off-balance sheet commitments

In order to manage the exposure to credit risk, the Group has adopted credit policies and procedures that are reviewed and updated by the Credit Management Department and the Credit Approval Department at the Head Office. The credit approval process for both corporate loans and personal loans can be broadly divided into three stages: (1) credit origination and assessment; (2) credit review and approval; and (3) fund disbursement and post-disbursement management.

Credit to corporate customers in the Chinese mainland is originated by the Corporate Banking Department at the Head Office and the Corporate Banking Department at branch level and submitted to the Credit Approval Department for due diligence and approval. All credit applications for corporate customers must be approved by the authorised credit application approvers at the Head Office and tier 1 branch level in the Chinese mainland, except for the low risk credit applications which are in accordance with the rules. The exposure to any one borrower, including banks, is restricted by credit limits covering on and off-balance sheet exposures.

Personal loans in the Chinese mainland are originated by the Personal Banking Departments at branch level and must be approved by authorised approvers at tier 1 branch level in the Chinese mainland, except for individual pledged loans and government-sponsored student loans, which may be approved by authorised approvers at sub-branches below tier 1 level. High risk personal loans such as personal loans for business purposes in excess of certain limits must also be reviewed by the Risk Management Department.

The Head Office also oversees the risk management of the branches in Hong Kong, Macao, Taiwan and other countries and regions. In particular, any credit application at these branches exceeding the authorisation limits is required to be submitted to the Head Office for approval.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

(ii) Debt securities and derivatives

The Group is also exposed to credit risk through investment activities and trading activities. Credit limits are established based on type of instruments and the credit quality of counterparties, securities issuers and the securities, and set limits are actively monitored.

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.2 Credit risk limit control and mitigation policies (Continued)

(2) Credit risk mitigation policies

(i) Collateral and guarantees

The Group has a range of policies and practices intended to mitigate credit risk. The most prevalent of these is the taking of security for funds advances, collaterals and guarantees. The Group implements guidelines on the acceptability of specific classes of collateral and mortgage rate upper limit. The amount of acceptable collateral at the time of loan origination is determined by the Credit Management Department and is subject to mortgage rate upper limit based on type and the value of collateral is monitored on an ongoing. The mortgage rate upper limit based on principal collateral types for corporate loans and advances are:

Main collateral	Mortgage rate upper limit*
Deposit receipt	Full coverage of principal and interest
PRC Treasury bonds	90%
Financial institution bonds	50%–90%
Publicly traded stocks	60%
Land use rights	50%–70%
Real estate	50%–70%
Automobiles	70%

* The upper limit of the collateral rate is applied for the collateral under the business with non-risk exposure, the collateral of the business with risk exposure and non-credit business is not limited by the upper limit of the collateral rate, and the upper limit of the collateral rate shall not be the basis for the verification and approval of the total credit amount.

Mortgages to retail customers are generally collateralised by mortgages over residential properties. Other loans are collateralised depending on the nature of the loan.

For loans guaranteed by a third party guarantor, the Group will assess the guarantor's credit rating, financial condition, credit history and ability to meet obligations.

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured, with the exception of certain asset-backed securities and similar instruments, which are secured by portfolios of financial instruments.

Collateral is also held as part of reverse repurchase agreements. Under such agreements, the Group is permitted to sell or repledge collateral in the absence of default by the owner of the collateral. Details of collateral accepted and which the Group is obligated to return are disclosed in Note V.41.3.

(ii) Master netting arrangements

The Group further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in the offsetting of assets and liabilities in the statement of financial position, as transactions are usually settled on a gross basis. However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if a default occurs, all amounts with the customer are terminated and settled on a net basis. The Group's overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a short period, as it is affected by each transaction subject to the arrangement.

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.3 Impairment measurement for losses on assets

Refer to Note II.4.6 for relevant policies.

3.4 Maximum exposure to credit risk before collateral held or other credit enhancements

	As at 31 December	
	2020	2019
Credit risk exposures relating to on-balance sheet financial assets are as follows:		
Due from banks and other financial institutions	**724,320**	500,560
Balances with central banks	**2,076,840**	2,078,809
Placements with and loans to banks and other financial institutions	**939,320**	898,959
Government certificates of indebtedness for bank notes issued	**168,608**	155,466
Derivative financial assets	**171,738**	93,335
Loans and advances to customers, net	**13,848,304**	12,743,425
Financial investments		
— financial assets at fair value through profit or loss	**353,064**	378,131
— financial assets at fair value through other comprehensive income	**2,086,362**	2,196,352
— financial assets at amortised cost	**2,978,778**	2,777,683
Other assets	**134,116**	115,941
Subtotal	**23,481,450**	21,938,661
Credit risk exposures relating to off-balance sheet items are as follows:		
Letters of guarantee issued	**1,035,517**	1,049,629
Loan commitments and other credit commitments	**3,456,156**	3,292,941
Subtotal	**4,491,673**	4,342,570
Total	**27,973,123**	26,281,231

The table above represents a worst case scenario of credit risk exposure of the Group as at 31 December 2020 and 2019, without taking into account any collateral held, master netting agreements or other credit enhancements attached. For on-balance sheet assets, the exposures set out above are based on net carrying amounts as reported in the statement of financial position.

As at 31 December 2020, 49.51% of the Group's total maximum credit exposure is derived from loans and advances to customers (31 December 2019: 48.49%) and 19.32% represents investments in debt securities (31 December 2019: 20.31%).

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 *Loans and advances*

Analysis of loans and advances to customers (accrued interest excluded) by geographical area, customer type, industry, collateral type and analysis of impaired and overdue loans and advances to customers are presented below:

(1) Concentrations of risk for loans and advances to customers

(i) Analysis of loans and advances to customers by geographical area

Group

	As at 31 December			
	2020		2019	
	Amount	**% of total**	Amount	% of total
Chinese mainland	**11,501,791**	**81.09%**	10,302,408	79.04%
Hong Kong, Macao and Taiwan	**1,697,934**	**11.97%**	1,697,434	13.02%
Other countries and regions	**983,660**	**6.94%**	1,034,347	7.94%
Total	**14,183,385**	**100.00%**	13,034,189	100.00%

Chinese mainland

	As at 31 December			
	2020		2019	
	Amount	**% of total**	Amount	% of total
Northern China	**1,695,932**	**14.74%**	1,573,127	15.27%
Northeastern China	**502,186**	**4.37%**	494,186	4.80%
Eastern China	**4,505,204**	**39.17%**	4,016,742	38.99%
Central and Southern China	**3,266,619**	**28.40%**	2,875,436	27.91%
Western China	**1,531,850**	**13.32%**	1,342,917	13.03%
Total	**11,501,791**	**100.00%**	10,302,408	100.00%

(ii) Analysis of loans and advances to customers by customer type

	Chinese mainland	Hong Kong, Macao and Taiwan	Other countries and regions	Total
As at 31 December 2020				
Corporate loans and advances				
— Trade bills	**970,413**	**83,276**	**101,869**	**1,155,558**
— Other	**5,551,519**	**1,071,321**	**821,692**	**7,444,532**
Personal loans	**4,979,859**	**543,337**	**60,099**	**5,583,295**
Total	**11,501,791**	**1,697,934**	**983,660**	**14,183,385**
As at 31 December 2019				
Corporate loans and advances				
— Trade bills	996,845	108,177	127,170	1,232,192
— Other	4,853,846	1,051,188	849,154	6,754,188
Personal loans	4,451,717	538,069	58,023	5,047,809
Total	10,302,408	1,697,434	1,034,347	13,034,189

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(1) Concentrations of risk for loans and advances to customers (Continued)

(iii) Analysis of loans and advances to customers by industry

Group

	As at 31 December			
	2020		2019	
	Amount	**% of total**	Amount	% of total
Corporate loans and advances				
Commerce and services	**1,764,213**	**12.44%**	1,706,650	13.09%
Manufacturing	**1,692,261**	**11.93%**	1,679,202	12.88%
Transportation, storage and postal services	**1,493,828**	**10.53%**	1,294,922	9.93%
Real estate	**1,137,469**	**8.02%**	1,042,664	8.00%
Production and supply of electricity, heating, gas and water	**726,824**	**5.13%**	649,289	4.98%
Financial services	**646,979**	**4.56%**	565,333	4.34%
Mining	**282,394**	**1.99%**	293,375	2.25%
Construction	**268,676**	**1.89%**	255,160	1.96%
Water, environment and public utility management	**250,551**	**1.77%**	199,376	1.53%
Public utilities	**161,402**	**1.14%**	149,855	1.15%
Other	**175,493**	**1.24%**	150,554	1.16%
Subtotal	**8,600,090**	**60.64%**	7,986,380	61.27%
Personal loans				
Mortgages	**4,418,761**	**31.15%**	3,993,271	30.64%
Credit cards	**498,435**	**3.51%**	476,743	3.66%
Other	**666,099**	**4.70%**	577,795	4.43%
Subtotal	**5,583,295**	**39.36%**	5,047,809	38.73%
Total	**14,183,385**	**100.00%**	13,034,189	100.00%

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(1) Concentrations of risk for loans and advances to customers (Continued)

(iii) Analysis of loans and advances to customers by industry (Continued)

Chinese mainland

	As at 31 December			
	2020		2019	
	Amount	% of total	Amount	% of total
Corporate loans and advances				
Commerce and services	**1,395,690**	**12.13%**	1,269,121	12.32%
Manufacturing	**1,329,778**	**11.56%**	1,285,438	12.48%
Transportation, storage and postal services	**1,313,457**	**11.42%**	1,129,091	10.96%
Real estate	**639,777**	**5.56%**	553,951	5.38%
Production and supply of electricity, heating, gas and water	**554,626**	**4.82%**	489,086	4.75%
Financial services	**487,488**	**4.24%**	398,095	3.86%
Mining	**163,193**	**1.42%**	165,218	1.60%
Construction	**218,541**	**1.90%**	214,351	2.08%
Water, environment and public utility management	**243,268**	**2.12%**	188,387	1.83%
Public utilities	**136,444**	**1.19%**	120,595	1.17%
Other	**39,670**	**0.34%**	37,358	0.36%
Subtotal	**6,521,932**	**56.70%**	5,850,691	56.79%
Personal loans				
Mortgages	**3,991,540**	**34.71%**	3,582,138	34.77%
Credit cards	**488,086**	**4.24%**	462,150	4.49%
Other	**500,233**	**4.35%**	407,429	3.95%
Subtotal	**4,979,859**	**43.30%**	4,451,717	43.21%
Total	**11,501,791**	**100.00%**	10,302,408	100.00%

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(1) Concentrations of risk for loans and advances to customers (Continued)

(iv) Analysis of loans and advances to customers by collateral type

Group

	As at 31 December			
	2020		2019	
	Amount	**% of total**	Amount	% of total
Unsecured loans	**4,533,495**	**31.96%**	4,151,941	31.86%
Guaranteed loans	**1,737,379**	**12.25%**	1,572,146	12.06%
Collateralised and other secured loans	**7,912,511**	**55.79%**	7,310,102	56.08%
Total	**14,183,385**	**100.00%**	13,034,189	100.00%

Chinese mainland

	As at 31 December			
	2020		2019	
	Amount	**% of total**	Amount	% of total
Unsecured loans	**3,311,387**	**28.79%**	2,923,150	28.37%
Guaranteed loans	**1,379,925**	**12.00%**	1,211,994	11.77%
Collateralised and other secured loans	**6,810,479**	**59.21%**	6,167,264	59.86%
Total	**11,501,791**	**100.00%**	10,302,408	100.00%

Notes to the Consolidated Financial Statements

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(2) *Analysis of loans and advances to customers by impairment status*

(i) Impaired loans and advances by geographical area

Group

	As at 31 December					
	2020			2019		
	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio
Chinese mainland	**189,985**	**91.66%**	**1.65%**	169,951	95.35%	1.65%
Hong Kong, Macao and Taiwan	**4,674**	**2.25%**	**0.28%**	3,842	2.16%	0.23%
Other countries and regions	**12,614**	**6.09%**	**1.28%**	4,442	2.49%	0.43%
Total	**207,273**	**100.00%**	**1.46%**	178,235	100.00%	1.37%

Chinese mainland

	As at 31 December					
	2020			2019		
	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio
Northern China	**27,699**	**14.58%**	**1.63%**	31,762	18.69%	2.02%
Northeastern China	**15,229**	**8.02%**	**3.03%**	22,123	13.02%	4.48%
Eastern China	**52,199**	**27.47%**	**1.16%**	59,764	35.17%	1.49%
Central and Southern China	**81,201**	**42.74%**	**2.49%**	39,060	22.98%	1.36%
Western China	**13,657**	**7.19%**	**0.89%**	17,242	10.14%	1.28%
Total	**189,985**	**100.00%**	**1.65%**	169,951	100.00%	1.65%

(ii) Impaired loans and advances by customer type

Group

	As at 31 December					
	2020			2019		
	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio
Corporate loans and advances	**174,012**	**83.95%**	**2.02%**	149,427	83.84%	1.87%
Personal loans	**33,261**	**16.05%**	**0.60%**	28,808	16.16%	0.57%
Total	**207,273**	**100.00%**	**1.46%**	178,235	100.00%	1.37%

Chinese mainland

	As at 31 December					
	2020			2019		
	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio
Corporate loans and advances	**157,767**	**83.04%**	**2.42%**	141,978	83.54%	2.43%
Personal loans	**32,218**	**16.96%**	**0.65%**	27,973	16.46%	0.63%
Total	**189,985**	**100.00%**	**1.65%**	169,951	100.00%	1.65%

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(2) Analysis of loans and advances to customers by impairment status (Continued)

(iii) Impaired loans and advances by geographical area and industry

	As at 31 December					
	2020			2019		
	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio
Chinese mainland						
Corporate loans and advances						
Commerce and services	**42,010**	**20.27%**	**3.01%**	45,104	25.31%	3.55%
Manufacturing	**56,696**	**27.35%**	**4.26%**	59,646	33.46%	4.64%
Transportation, storage and postal services	**14,276**	**6.89%**	**1.09%**	8,276	4.64%	0.73%
Real estate	**29,952**	**14.45%**	**4.68%**	2,936	1.65%	0.53%
Production and supply of electricity, heating, gas and water	**2,374**	**1.14%**	**0.43%**	10,954	6.15%	2.24%
Financial services	**42**	**0.02%**	**0.01%**	225	0.13%	0.06%
Mining	**4,537**	**2.19%**	**2.78%**	4,946	2.77%	2.99%
Construction	**3,806**	**1.84%**	**1.74%**	3,561	2.00%	1.66%
Water, environment and public utility management	**2,319**	**1.12%**	**0.95%**	1,594	0.89%	0.85%
Public utilities	**894**	**0.43%**	**0.66%**	877	0.49%	0.73%
Other	**861**	**0.42%**	**2.17%**	3,859	2.17%	10.33%
Subtotal	**157,767**	**76.12%**	**2.42%**	141,978	79.66%	2.43%
Personal loans						
Mortgages	**12,680**	**6.12%**	**0.32%**	10,463	5.87%	0.29%
Credit cards	**12,199**	**5.88%**	**2.50%**	10,269	5.76%	2.22%
Other	**7,339**	**3.54%**	**1.47%**	7,241	4.06%	1.78%
Subtotal	**32,218**	**15.54%**	**0.65%**	27,973	15.69%	0.63%
Total for Chinese mainland	**189,985**	**91.66%**	**1.65%**	169,951	95.35%	1.65%
Hong Kong, Macao, Taiwan and other countries and regions	**17,288**	**8.34%**	**0.64%**	8,284	4.65%	0.30%
Total	**207,273**	**100.00%**	**1.46%**	178,235	100.00%	1.37%

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(2) Analysis of loans and advances to customers by impairment status (Continued)

(iv) Impaired loans and advances and related allowance by geographical area

	Impaired loans	Allowance for impairment losses	Net
As at 31 December 2020			
Chinese mainland	**189,985**	**(151,489)**	**38,496**
Hong Kong, Macao and Taiwan	**4,674**	**(2,463)**	**2,211**
Other countries and regions	**12,614**	**(8,943)**	**3,671**
Total	**207,273**	**(162,895)**	**44,378**
As at 31 December 2019			
Chinese mainland	169,951	(131,307)	38,644
Hong Kong, Macao and Taiwan	3,842	(2,462)	1,380
Other countries and regions	4,442	(2,775)	1,667
Total	178,235	(136,544)	41,691

(v) Within the impaired corporate loans and advances, the portions covered and not covered by collateral held are as follows:

	Group		Chinese mainland	
	As at 31 December 2020	As at 31 December 2019	**As at 31 December 2020**	As at 31 December 2019
Portion covered	**95,896**	94,007	**89,692**	92,737
Portion not covered	**78,116**	55,420	**68,075**	49,241
Total	**174,012**	149,427	**157,767**	141,978
Fair value of collateral held	**33,859**	49,054	**31,483**	46,939

Collateral of impaired corporate loans and advances includes land, buildings, equipment and others. The fair value of collateral was estimated by the Group with reference to the latest available external valuations adjusted for recent experience in disposal of collateral as well as the market conditions.

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(3) Loans and advances rescheduled

Rescheduling is a voluntary or, to a limited extent, court-supervised procedure, through which the Group and a borrower and/or its guarantor, if any, rescheduled credit terms as a result of deterioration in the borrower's financial condition or of the borrower's inability to make payments when due. The Group reschedules a non-performing loan only if the borrower has good prospects. In addition, prior to approving the rescheduling of loans, the Group typically requires additional guarantees, pledges and/or collateral, or the assumption of the loan by a borrower with better repayment ability.

Rescheduled loans are subject to a surveillance period of six months. During the surveillance period, rescheduled loans remain as non-performing loans and the Group monitors the borrower's business operations and loan repayment patterns. After the surveillance period, rescheduled loans may be upgraded to "Special-mention" upon review if certain criteria are met. If the rescheduled loans fall due or if the borrower is unable to demonstrate its repayment ability, these loans will be reclassified to "Doubtful" or below. All rescheduled loans within the surveillance period were determined to be impaired as at 31 December 2020 and 2019.

As at 31 December 2020 and 2019, within impaired loans and advances, rescheduled loans and advances that were overdue for 90 days or less were insignificant.

(4) Overdue loans and advances to customers

(i) Analysis of overdue loans and advances to customers by collateral type and overdue days

Group

	Past due up to 90 days	Past due 91 to 360 days	Past due 361 Days to 3 years	Past due over 3 years	Total
As at 31 December 2020					
Unsecured loans	**8,040**	**15,841**	**7,122**	**2,314**	**33,317**
Guaranteed loans	**5,160**	**11,622**	**9,952**	**1,507**	**28,241**
Collateralised and other secured loans	**41,142**	**43,635**	**27,192**	**5,857**	**117,826**
Total	**54,342**	**71,098**	**44,266**	**9,678**	**179,384**
As at 31 December 2019					
Unsecured loans	8,937	12,236	7,591	2,086	30,850
Guaranteed loans	8,956	11,150	12,747	1,949	34,802
Collateralised and other secured loans	44,945	22,056	23,917	6,059	96,977
Total	62,838	45,442	44,255	10,094	162,629

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(4) Overdue loans and advances to customers (Continued)

(i) Analysis of overdue loans and advances to customers by collateral type and overdue days (Continued)

Chinese mainland

	Past due up to 90 days	Past due 91 to 360 days	Past due 361 Days to 3 years	Past due over 3 years	Total
As at 31 December 2020					
Unsecured loans	**6,626**	**11,785**	**5,262**	**2,284**	**25,957**
Guaranteed loans	**4,740**	**9,299**	**9,670**	**1,239**	**24,948**
Collateralised and other secured loans	**37,284**	**39,780**	**26,692**	**5,604**	**109,360**
Total	**48,650**	**60,864**	**41,624**	**9,127**	**160,265**
As at 31 December 2019					
Unsecured loans	7,141	10,611	6,835	2,071	26,658
Guaranteed loans	8,650	10,927	12,673	1,661	33,911
Collateralised and other secured loans	40,651	19,291	23,650	5,817	89,409
Total	56,442	40,829	43,158	9,549	149,978

(ii) Analysis of overdue loans and advances by geographical area

	As at 31 December	
	2020	2019
Chinese mainland	**160,265**	149,978
Hong Kong, Macao and Taiwan	**6,850**	7,171
Other countries and regions	**12,269**	5,480
Subtotal	**179,384**	162,629
Percentage	**1.26%**	1.25%
Less: total loans and advances to customers which have been overdue for less than 3 months	**(54,342)**	(62,838)
Total loans and advances to customers which have been overdue for more than 3 months	**125,042**	99,791

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(5) Loans and advances three-staging classification

Loans and advances to customers by five-category loan classification and three-staging classification are analysed as follows:

	As at 31 December 2020			
	12-month ECLs	Lifetime ECLs		
	Stage 1	Stage 2	Stage 3	Total
Pass	**13,642,318**	**66,181**	**–**	**13,708,499**
Special-mention	**–**	**263,952**	**–**	**263,952**
Substandard	**–**	**–**	**125,118**	**125,118**
Doubtful	**–**	**–**	**33,823**	**33,823**
Loss	**–**	**–**	**48,332**	**48,332**
Total	**13,642,318**	**330,133**	**207,273**	**14,179,724**

	As at 31 December 2019			
	12-month ECLs	Lifetime ECLs		
	Stage 1	Stage 2	Stage 3	Total
Pass	12,514,948	47,588	–	12,562,536
Special-mention	–	289,314	–	289,314
Substandard	–	–	77,459	77,459
Doubtful	–	–	51,804	51,804
Loss	–	–	48,972	48,972
Total	12,514,948	336,902	178,235	13,030,085

As at 31 December 2020 and 2019, loans and advances by five-category loan classification and three-staging classification did not include loans and advances to customers measured at fair value through profit or loss.

3.6 Due from and placements with and loans to banks and other financial institutions

Banks and other financial institutions comprise those institutions in the Chinese mainland, Hong Kong, Macao, Taiwan and other countries and regions.

The Group monitors the credit risk of counterparties by collecting and analysing counterparty information and establishing credit limits taking into account the nature, size and credit rating of counterparties.

As at 31 December 2020, the majority of the balances of due from and placements with and loans to banks and other financial institutions were banks and other financial institutions in the Chinese mainland (Note V.13 and Note V.15), the majority of the internal credit ratings of these banks and other financial institutions were above A.

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.7 Debt securities

The Group adopted a credit rating approach to manage the credit risk of the debt securities by referring to both internal and external credit rating. The carrying amounts (accrued interest excluded) of the debt investments analysed by external credit ratings at the financial reporting dates are as follows:

	Unrated	A to AAA	Lower than A	Total
As at 31 December 2020				
Issuers in Chinese mainland				
— Government	**6,461**	**3,026,650**	**–**	**3,033,111**
— Public sectors and quasi-governments	**130,695**	**–**	**–**	**130,695**
— Policy banks	**149**	**446,888**	**–**	**447,037**
— Financial institutions	**31,229**	**269,487**	**123,956**	**424,672**
— Corporate	**67,834**	**109,443**	**39,474**	**216,751**
— China Orient	**152,433**	**–**	**–**	**152,433**
Subtotal	**388,801**	**3,852,468**	**163,430**	**4,404,699**
Issuers in Hong Kong, Macao, Taiwan and other countries and regions				
— Governments	**36,393**	**503,881**	**16,338**	**556,612**
— Public sectors and quasi-governments	**34,077**	**31,748**	**–**	**65,825**
— Financial institutions	**10,015**	**127,643**	**34,449**	**172,107**
— Corporate	**13,453**	**89,307**	**38,716**	**141,476**
Subtotal	**93,938**	**752,579**	**89,503**	**936,020**
Total	**482,739**	**4,605,047**	**252,933**	**5,340,719**
As at 31 December 2019				
Issuers in Chinese mainland				
— Government	12,997	2,848,409	350	2,861,756
— Public sectors and quasi-governments	109,923	–	–	109,923
— Policy banks	–	435,212	–	435,212
— Financial institutions	86,765	219,640	214,672	521,077
— Corporate	64,457	121,200	26,852	212,509
— China Orient	152,433	–	–	152,433
Subtotal	426,575	3,624,461	241,874	4,292,910
Issuers in Hong Kong, Macao, Taiwan and other countries and regions				
— Governments	2,364	506,421	16,089	524,874
— Public sectors and quasi-governments	60,332	58,889	–	119,221
— Financial institutions	5,675	123,249	31,916	160,840
— Corporate	11,957	127,515	34,663	174,135
Subtotal	80,328	816,074	82,668	979,070
Total	506,903	4,440,535	324,542	5,271,980

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.7 Debt securities (Continued)

The carrying amounts (accrued interest excluded) of debt investments analysed by external credit ratings and expected credit losses are as follows:

	As at 31 December 2020			
	12-month ECL	Lifetime ECL		
	Stage 1	Stage 2	Stage 3	Total
Unrated	**452,851**	**281**	**392**	**453,524**
A to AAA	**4,360,353**	**–**	**–**	**4,360,353**
Lower than A	**182,704**	**123**	**–**	**182,827**
Total	**4,995,908**	**404**	**392**	**4,996,704**

	As at 31 December 2019			
	12-month ECL	Lifetime ECL		
	Stage 1	Stage 2	Stage 3	Total
Unrated	467,979	239	–	468,218
A to AAA	4,199,036	59	–	4,199,095
Lower than A	236,749	180	–	236,929
Total	4,903,764	478	–	4,904,242

3.8 Derivatives

The risk-weighted assets for counterparty credit risk ("CCR") of derivatives of the Group are calculated in accordance with the *Capital Rules for Commercial Banks (Provisional)* and other relevant regulations under the advanced capital measurement approaches. For derivative transactions, risk-weighted assets for CCR include the risk-weighted assets for default risk, the risk-weighted assets for credit valuation adjustment ("CVA") and the risk-weighted assets for central counterparties ("CCPs").

The risk-weighted assets for default risk of derivatives of the Group are calculated in accordance with the *Assets Measurement Rules for Counterparty Default Risks of Derivatives* since 1 January 2019.

The risk-weighted assets for the CCR of derivatives are as follows:

	As at 31 December	
	2020	2019
Risk-weighted assets for default risk		
Currency derivatives	**76,313**	62,076
Interest rate derivatives	**16,082**	10,442
Equity derivatives	**844**	338
Commodity derivatives and other	**18,487**	12,135
	111,726	84,991
Risk-weighted assets for CVA	**110,319**	79,954
Risk-weighted assets for CCPs	**6,330**	6,095
Total	**228,375**	171,040

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.9 Repossessed assets

The Group obtained assets by taking possession of collateral held as security. Detailed information of such repossessed assets of the Group is disclosed in Note V.22.

4 Market risk

4.1 Overview

The Group is exposed to market risks from on-balance and off-balance businesses, that may cause losses to the Group as a result of adverse changes in market prices of interest rate, exchange rate, equities and commodities. Market risk arises from open positions in the trading and banking books. The trading book consists of positions in financial instruments and commodities that are held with trading intent or in order to hedge other elements of the trading book. The banking book consists of financial instruments not included in the trading book.

The Board of Directors of the Group takes the ultimate responsibility for the oversight of market risk management, including the approval of market risk management policies and procedures and the determination of market risk tolerance. Senior management is responsible for the execution of such policies and ensuring that the level of market risk is within the risk appetite determined by the Board, while meeting the Group's business objectives.

Market risk management departments are responsible for the identification, measurement, monitoring, control and reporting of market risks on a Group basis. Business units are responsible for the monitoring and reporting of market risk within their respective business lines.

4.2 Market risk measurement techniques and limits

(1) Trading book

For the purpose of market risk management in the trading book, the Group monitors trading book Value at Risk (VaR) limits, stress testing results and exposure limits and tracks each trading desk and dealer's observance of each limit on a daily basis.

VaR is used to estimate the largest potential loss arising from adverse market movements in a specific holding period and within a certain confidence level.

VaR is performed separately by the Bank and its major subsidiaries that are exposed to market risk, BOCHK (Holdings) and BOCI. The Bank, BOCHK (Holdings) and BOCI used a 99% level of confidence (therefore, statistical probability of 1% that actual losses could be greater than the VaR estimate) and a historical simulation model to calculate the VaR estimate. The holding period of the VaR calculations is one day. To enhance the Group's market risk management, the Group has established the market risk data mart, which enabled a group level trading book VaR calculation on a daily basis.

The accuracy and reliability of the VaR model is verified by daily back-testing of the VaR results in the trading book. The back-testing results are regularly reported to senior management.

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.2 Market risk measurement techniques and limits (Continued)

(1) Trading book (Continued)

The Group utilises stress testing as an effective supplement to the trading book VaR analysis. Stress testing scenarios are performed based on the characteristics of trading transactions to simulate and estimate losses in adverse and exceptional market conditions. To address changes in the financial markets, the Group enhances its market risk identification capabilities by continuously modifying and improving the trading book stress testing scenarios and measurement methodologies in order to capture the potential impact to transaction market prices stemming from changes in market prices and volatility.

The table below shows the VaR of the trading book by type of risk during the years ended 31 December 2020 and 2019:

Unit: USD million

	Year ended 31 December					
	2020			2019		
	Average	High	Low	Average	High	Low
The Bank's trading VaR						
Interest rate risk	**13.45**	**17.87**	**9.17**	18.70	23.50	13.24
Foreign exchange risk	**26.61**	**39.35**	**11.83**	18.00	26.69	9.80
Volatility risk	**2.18**	**6.45**	**0.18**	0.44	2.27	0.17
Commodity risk	**6.35**	**13.76**	**3.04**	1.77	6.26	0.75
Total of the Bank's trading VaR	**29.56**	**38.72**	**16.18**	23.03	29.56	17.11

The reporting of risk in relation to bullion is included in foreign exchange risk above.

Unit: USD million

	Year ended 31 December					
	2020			2019		
	Average	High	Low	Average	High	Low
BOCHK (Holdings)'s trading VaR						
Interest rate risk	**2.38**	**4.58**	**0.75**	2.72	5.30	1.26
Foreign exchange risk	**2.72**	**3.98**	**0.84**	1.63	2.69	0.93
Equity risk	**0.13**	**0.38**	**0.03**	0.10	0.32	0.03
Commodity risk	**0.23**	**1.44**	**0.00**	2.06	5.59	0.03
Total BOCHK (Holdings)'s trading VaR	**4.01**	**6.47**	**2.25**	3.95	6.70	2.24
BOCI's trading VaR(i)						
Equity derivatives unit	**0.94**	**2.28**	**0.23**	0.76	1.96	0.34
Fixed income unit	**1.10**	**2.15**	**0.41**	0.66	0.97	0.51
Global commodity unit	**0.20**	**0.30**	**0.15**	0.20	0.36	0.10
Total BOCI's trading VaR	**2.24**	**4.30**	**1.37**	1.61	2.95	1.17

(i) BOCI monitors its trading VaR for equity derivatives unit, fixed income unit and global commodity unit separately, which include equity risk, interest rate risk, foreign exchange risk and commodity risk.

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.2 Market risk measurement techniques and limits (Continued)

(1) Trading book (Continued)

VaR for each risk factor is the independently derived largest potential loss in a specific holding period and within a certain confidence level due to fluctuations solely in that risk factor. The individual VaRs was not added up to the total VaR as there was a diversification effect due to correlation amongst the risk factors.

(2) Banking book

Interest rate risk in the banking book ("IRRBB") refers to the risk of losses to a bank's economic value and to its overall earnings of banking book, arising from adverse movements in interest rates level or term structure. IRRBB mainly comes from repricing gaps between assets and liabilities in the banking book, and differences in changes in benchmarking interest rates for assets and liabilities. The Group is exposed to interest rate risk and fluctuations in market interest rates that will impact the Group's financial position.

The Group assesses IRRBB primarily through an interest rate repricing gap analysis. Interest rate repricing gap analysis measures the difference between the amount of interest-earning assets and interest-bearing liabilities that must be repriced within certain periods. The Group employs the interest rate repricing gap analysis and takes the impact of the off-balance sheet business into consideration when calculating the indications of sensitivity of earnings to changing interest rates. The interest rate gap analysis is set out in Note VI.4.3 and also covers the trading book.

Sensitivity analysis on net interest income

Sensitivity analysis on net interest income assumes that yield curves change in parallel while the structure of assets and liabilities remains unchanged, and does not take into consideration changes in customer behaviour, basis risk, etc. The Group made timely adjustments to the structure of its assets and liabilities, optimised the internal and external pricing strategy or implemented risk hedging based on changes in the market situation, and controlled the fluctuation of net interest income within an acceptable level.

The table below illustrates the potential impact of a 25 basis points interest rate move on the net interest income of the Group. The actual situation may be different from the assumptions used and it is possible that actual outcomes could differ from the estimated impact on net interest income of the Group.

	(Decrease)/increase in net interest income	
	As at 31 December	
	2020	2019
+ 25 basis points	**(4,107)**	(4,534)
– 25 basis points	**4,107**	4,534

Given the nature of demand deposits, their interest rate fluctuations are less volatile than those of other products. Had the impact of yield curves movement on interest expenses related to demand deposits been excluded, the net interest income for the next twelve months from the reporting date would have increased or decreased by RMB16,716 million (2019: RMB14,591 million) for 25 basis points upward or downward parallel movements, respectively.

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.3 GAP analysis

The tables below summarise the Group's exposure to interest rate risk. It includes the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	As at 31 December 2020						
	Less than 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and due from banks and other financial institutions	470,557	92,375	152,489	3,117	–	84,607	803,145
Balances with central banks	1,883,236	2,990	489	651	–	189,474	2,076,840
Placements with and loans to banks and other financial institutions	405,802	167,138	278,759	82,515	–	5,106	939,320
Derivative financial assets	–	–	–	–	–	171,738	171,738
Loans and advances to customers, net	3,696,907	2,476,327	6,603,223	297,793	268,035	506,019	13,848,304
Financial investments							
— financial assets at fair value through profit or loss	10,968	48,105	76,626	42,983	169,896	155,971	504,549
— financial assets at fair value through other comprehensive income	176,317	249,957	253,926	925,422	461,527	40,641	2,107,790
— financial assets at amortised cost	229,352	71,072	336,105	1,283,662	1,019,905	38,682	2,978,778
Other	2,698	–	–	–	14,328	955,169	972,195
Total assets	6,875,837	3,107,964	7,701,617	2,636,143	1,933,691	2,147,407	24,402,659
Liabilities							
Due to banks and other financial institutions	1,150,797	250,707	192,966	5,518	–	317,015	1,917,003
Due to central banks	309,560	114,713	428,370	28,230	–	6,938	887,811
Placements from banks and other financial institutions	247,076	102,269	61,627	6	–	971	411,949
Derivative financial liabilities	–	–	–	–	–	212,052	212,052
Due to customers	9,697,626	1,333,837	2,582,012	2,817,528	1,698	446,470	16,879,171
Bonds issued	75,317	201,662	450,653	461,129	49,612	6,030	1,244,403
Other	28,026	17,655	5,385	8,566	22,808	604,993	687,433
Total liabilities	11,508,402	2,020,843	3,721,013	3,320,977	74,118	1,594,469	22,239,822
Total interest repricing gap	(4,632,565)	1,087,121	3,980,604	(684,834)	1,859,573	552,938	2,162,837

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.3 GAP analysis (Continued)

	As at 31 December 2019						
	Less than 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and due from banks and other financial institutions	326,312	52,603	116,321	2,845	129	67,257	565,467
Balances with central banks	1,848,825	2,289	594	–	–	227,101	2,078,809
Placements with and loans to banks and other financial institutions	427,786	195,628	230,922	40,489	–	4,134	898,959
Derivative financial assets	–	–	–	–	–	93,335	93,335
Loans and advances to customers, net	3,317,026	2,369,401	6,291,477	207,511	82,221	475,789	12,743,425
Financial investments							
— financial assets at fair value through profit or loss	17,516	53,982	97,306	54,269	148,855	146,322	518,250
— financial assets at fair value through other comprehensive income	188,302	287,412	366,595	837,429	492,120	46,271	2,218,129
— financial assets at amortised cost	33,368	45,578	487,744	1,331,541	841,101	38,351	2,777,683
Other	4,897	–	–	–	12,737	858,053	875,687
Total assets	6,164,032	3,006,893	7,590,959	2,474,084	1,577,163	1,956,613	22,769,744
Liabilities							
Due to banks and other financial institutions	988,433	371,241	130,006	3,617	–	174,749	1,668,046
Due to central banks	251,446	72,048	510,594	3,570	–	8,619	846,277
Placements from banks and other financial institutions	495,927	71,468	69,079	1,363	14	1,824	639,675
Derivative financial liabilities	–	–	–	–	–	90,060	90,060
Due to customers	9,117,294	1,540,251	2,488,155	2,296,955	339	374,554	15,817,548
Bonds issued	57,441	192,462	404,780	402,772	32,451	6,181	1,096,087
Other	23,693	19,255	10,006	10,847	20,832	550,722	635,355
Total liabilities	10,934,234	2,266,725	3,612,620	2,719,124	53,636	1,206,709	20,793,048
Total interest repricing gap	(4,770,202)	740,168	3,978,339	(245,040)	1,523,527	749,904	1,976,696

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.4 Foreign currency risk

The Group conducts a substantial portion of its business in RMB, with certain transactions denominated in USD, HKD and, to a much lesser extent, other currencies. The major subsidiary, BOCHK Group, conducts the majority of its business in HKD, RMB and USD. The Group endeavours to manage its sources and uses of foreign currencies to minimise potential mismatches in accordance with management directives.

The Group manages its exposure to currency exchange risk through the management of its net foreign currency position and monitors its foreign currency risk on trading books using VaR (Note VI.4.2). Meanwhile, the Group performs currency risk sensitivity analysis to estimate the effect of potential exchange rate changes of foreign currencies against RMB on profit before tax and equity.

The tables below indicate a sensitivity analysis of exchange rate changes of the currencies to which the Group had significant exposure. The analysis calculates the effect of a reasonably possible movement in the currency rates against RMB, with all other variables held constant, on profit before tax and equity. A negative amount in the table reflects a potential net reduction in profit before tax or equity, while a positive amount reflects a potential net increase. Such analysis does not take into account the correlation effect of changes in different foreign currencies, any further actions that may have been or could be taken by management after the financial reporting date to mitigate the effect of exchange differences, nor any consequential changes in the foreign currency positions.

		Effect on profit before tax		Effect on equity*	
Currency	Change in currency rate	**As at 31 December 2020**	As at 31 December 2019	**As at 31 December 2020**	As at 31 December 2019
USD	+1%	**450**	354	**620**	522
HKD	+1%	**(181)**	(262)	**2,340**	2,079

* Effect on other comprehensive income (irrespective of income tax effect).

While the table above indicates the effect on profit before tax and equity of the 1% appreciation of USD and HKD, there will be an opposite effect with the same amounts if the currencies depreciate by the same percentage.

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.4 Foreign currency risk (Continued)

The tables below summarise the Group's exposure to foreign currency exchange rate risk as at 31 December 2020 and 2019. The Group's exposure to RMB is provided in the tables below for comparison purposes. Included in the table are the carrying amounts of the assets and liabilities of the Group along with off-balance sheet positions and credit commitments in RMB equivalent, categorised by the original currencies. Derivative financial instruments are included in the net off-balance sheet position using notional amounts.

	As at 31 December 2020							
	RMB	USD	HKD	EURO	JPY	GBP	Other	Total
Assets								
Cash and due from banks and other financial institutions	548,932	132,751	20,782	61,642	7,101	4,215	27,722	803,145
Balances with central banks	1,500,346	316,938	61,418	81,789	30,084	44,252	42,013	2,076,840
Placements with and loans to banks and other financial institutions	555,349	298,944	22,861	18,663	478	940	42,085	939,320
Derivative financial assets	97,475	44,134	3,479	738	987	9,344	15,581	171,738
Loans and advances to customers, net	11,024,110	1,106,377	1,010,120	258,468	11,076	62,829	375,324	13,848,304
Financial investments								
— financial assets at fair value through profit or loss	363,018	51,870	82,795	6,476	316	23	51	504,549
— financial assets at fair value through other comprehensive income	1,280,223	449,963	127,357	31,950	130,392	2,851	85,054	2,107,790
— financial assets at amortised cost	2,723,069	199,575	2,370	9,628	6,065	3,993	34,078	2,978,778
Other	317,767	183,732	219,734	2,466	1,417	2,346	244,733	972,195
Total assets	18,410,289	2,784,284	1,550,916	471,820	187,916	130,793	866,641	24,402,659
Liabilities								
Due to banks and other financial institutions	1,035,286	539,174	43,097	43,770	14,301	10,988	230,387	1,917,003
Due to central banks	576,601	277,062	12,918	13,487	–	341	7,402	887,811
Placements from banks and other financial institutions	137,784	215,247	13,729	28,757	12,204	2,247	1,981	411,949
Derivative financial liabilities	139,398	46,493	4,474	947	874	9,720	10,146	212,052
Due to customers	13,003,027	1,651,454	1,318,279	306,229	50,656	72,230	477,296	16,879,171
Bonds issued	968,665	218,950	8,617	31,980	1,896	311	13,984	1,244,403
Other	293,844	105,317	267,904	3,207	300	1,109	15,752	687,433
Total liabilities	16,154,605	3,053,697	1,669,018	428,377	80,231	96,946	756,948	22,239,822
Net on-balance sheet position	2,255,684	(269,413)	(118,102)	43,443	107,685	33,847	109,693	2,162,837
Net off-balance sheet position	(541,681)	392,537	347,658	(31,366)	(107,293)	(32,709)	(50,662)	(23,516)
Credit commitments	3,160,861	761,848	255,166	142,505	10,679	52,715	107,899	4,491,673

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.4 Foreign currency risk (Continued)

	As at 31 December 2019							
	RMB	USD	HKD	EURO	JPY	GBP	Other	Total
Assets								
Cash and due from banks and other financial institutions	370,569	140,513	18,368	10,977	7,833	1,691	15,516	565,467
Balances with central banks	1,583,469	265,682	57,599	59,456	49,422	34,133	29,048	2,078,809
Placements with and loans to banks and other financial institutions	652,817	149,463	33,441	6,050	141	2,435	54,612	898,959
Derivative financial assets	42,558	13,694	26,586	446	20	6,348	3,683	93,335
Loans and advances to customers, net	9,870,244	1,170,630	1,027,104	250,730	11,194	69,423	344,100	12,743,425
Financial investments								
— financial assets at fair value through profit or loss	346,644	78,848	83,199	2,540	6,925	16	78	518,250
— financial assets at fair value through other comprehensive income	1,354,391	489,432	150,486	32,292	103,797	2,610	85,121	2,218,129
— financial assets at amortised cost	2,525,349	219,495	3,319	4,802	770	954	22,994	2,777,683
Other	268,436	162,203	198,398	1,357	1,465	2,691	241,137	875,687
Total assets	17,014,477	2,689,960	1,598,500	368,650	181,567	120,301	796,289	22,769,744
Liabilities								
Due to banks and other financial institutions	1,009,086	391,869	27,167	43,826	21,193	7,374	167,531	1,668,046
Due to central banks	570,675	247,096	19,979	5,920	–	258	2,349	846,277
Placements from banks and other financial institutions	298,497	213,662	76,294	17,161	25,330	3,745	4,986	639,675
Derivative financial liabilities	36,135	19,811	22,813	707	52	6,112	4,430	90,060
Due to customers	11,925,923	1,836,997	1,255,663	254,485	56,683	55,672	432,125	15,817,548
Bonds issued	766,816	258,893	11,868	38,794	1,920	2,744	15,052	1,096,087
Other	254,949	91,825	267,607	3,131	351	1,863	15,629	635,355
Total liabilities	14,862,081	3,060,153	1,681,391	364,024	105,529	77,768	642,102	20,793,048
Net on-balance sheet position	2,152,396	(370,193)	(82,891)	4,626	76,038	42,533	154,187	1,976,696
Net off-balance sheet position	(463,297)	378,515	283,483	5,828	(75,754)	(40,620)	(74,643)	13,512
Credit commitments	2,959,323	836,835	257,229	124,696	9,841	49,401	105,245	4,342,570

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk

The liquidity risk refers to the risk that a commercial bank fails to acquire adequate funds in a timely manner and at a reasonable cost to deal with repayment of debts at maturity, perform other payment obligations and meet other fund needs for normal business operation.

5.1 Liquidity risk management policy and process

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

The Group considers liquidity risk management a significant component of asset-liability management, and determines the size, structure and duration of assets and liabilities consistent with the principle of overall balance between assets and liabilities. The Group establishes its liquidity portfolio to mitigate liquidity risk, and to minimise the gaps in the amount and duration between the funding sources and the uses of funds. The Group refines its financing strategy, taking into consideration various factors including customer risk sensitivity, financing cost and concentration of funding sources. In addition, the Group prioritises the development of customer deposits, dynamically adjusts the structure of fund sources by market-oriented financing modes, including due to banks and other financial institutions, inter-bank borrowings and improves the diversity and stability of financing sources.

Assets available to meet all of the liabilities and to cover outstanding loan commitments include "Cash and due from banks and other financial institutions", "Balances with central banks", "Placements with and loans to banks and other financial institutions", "Loans and advances to customers, net", etc. In the normal course of business, a proportion of short-term loans contractually repayable will be extended and a portion of short-term customer deposits will not be withdrawn upon maturity. The Group would also be able to meet unexpected net cash outflows by entering into repurchase transactions, and by selling securities and accessing additional funding sources.

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.2 Maturity analysis

The tables below analyse the Group's assets and liabilities into relevant maturity groupings based on the remaining period at the financial reporting date to the contractual maturity date. For purposes of the tables set forth, "Loans and advances to customers, net" are considered overdue only if principal payments are overdue. In addition, for loans and advances to customers that are repayable by instalments, only the portion of the loan that is actually overdue is reported as overdue. Any part of the loan that is not due is reported according to residual maturity.

	As at 31 December 2020							
	Overdue/ Undated	On demand	Less than 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	Over 5 years	Total
Assets								
Cash and due from banks and other financial institutions	21	286,447	265,996	93,556	154,008	3,117	–	803,145
Balances with central banks	1,452,254	549,551	39,355	5,709	28,669	1,302	–	2,076,840
Placements with and loans to banks and other financial institutions	377	–	397,698	154,029	286,481	100,735	–	939,320
Derivative financial assets	–	13,312	22,621	31,423	62,752	31,551	10,079	171,738
Loans and advances to customers, net	46,580	191,481	435,364	1,288,350	2,778,252	3,744,008	5,364,269	13,848,304
Financial investments								
— financial assets at fair value through profit or loss	154,836	–	10,521	47,105	77,423	44,679	169,985	504,549
— financial assets at fair value through other comprehensive income	23,481	–	137,987	217,198	284,963	973,389	470,772	2,107,790
— financial assets at amortised cost	2,805	–	50,431	80,052	358,189	1,443,948	1,043,353	2,978,778
Other	356,200	454,701	19,792	17,044	19,930	75,503	29,025	972,195
Total assets	2,036,554	1,495,492	1,379,765	1,934,466	4,050,667	6,418,232	7,087,483	24,402,659
Liabilities								
Due to banks and other financial institutions	–	1,351,541	70,855	271,019	217,441	6,056	91	1,917,003
Due to central banks	–	216,844	79,518	117,114	434,833	39,502	–	887,811
Placements from banks and other financial institutions	–	–	244,199	100,330	62,324	4,940	156	411,949
Derivative financial liabilities	–	9,479	24,395	34,122	95,255	35,127	13,674	212,052
Due to customers	–	8,521,036	1,528,697	1,354,270	2,596,276	2,871,178	7,714	16,879,171
Bonds issued	–	–	67,004	186,305	461,388	470,415	59,291	1,244,403
Other	–	329,254	58,677	15,215	112,493	95,681	76,113	687,433
Total liabilities	–	10,428,154	2,073,345	2,078,375	3,980,010	3,522,899	157,039	22,239,822
Net liquidity gap	2,036,554	(8,932,662)	(693,580)	(143,909)	70,657	2,895,333	6,930,444	2,162,837

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.2 Maturity analysis (Continued)

	As at 31 December 2019							
	Overdue/ Undated	On demand	Less than 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	Over 5 years	Total
Assets								
Cash and due from banks and other financial institutions	21	204,121	183,170	55,805	119,376	2,845	129	565,467
Balances with central banks	1,513,473	527,657	16,242	8,293	12,441	703	–	2,078,809
Placements with and loans to banks and other financial institutions	44	–	417,352	185,843	241,024	54,696	–	898,959
Derivative financial assets	–	10,697	14,983	20,855	24,869	16,610	5,321	93,335
Loans and advances to customers, net	51,073	188,916	458,233	1,216,882	2,716,777	3,221,650	4,889,894	12,743,425
Financial investments								
— financial assets at fair value through profit or loss	143,255	–	16,394	49,949	98,245	58,537	151,870	518,250
— financial assets at fair value through other comprehensive income	22,067	–	142,122	234,297	396,998	912,932	509,713	2,218,129
— financial assets at amortised cost	1,767	–	35,141	53,375	506,346	1,337,456	843,598	2,777,683
Other	345,309	381,978	24,301	12,827	23,308	60,436	27,528	875,687
Total assets	2,077,009	1,313,369	1,307,938	1,838,126	4,139,384	5,665,865	6,428,053	22,769,744
Liabilities								
Due to banks and other financial institutions	–	1,036,810	125,011	324,062	175,301	6,779	83	1,668,046
Due to central banks	–	180,113	70,832	72,898	518,864	3,570	–	846,277
Placements from banks and other financial institutions	–	–	492,657	70,924	69,694	6,386	14	639,675
Derivative financial liabilities	–	8,780	11,165	15,936	26,652	20,482	7,045	90,060
Due to customers	–	7,843,084	1,541,342	1,540,159	2,541,528	2,343,527	7,908	15,817,548
Bonds issued	–	–	23,985	150,073	416,192	470,942	34,895	1,096,087
Other	–	280,526	53,662	12,895	121,693	92,907	73,672	635,355
Total liabilities	–	9,349,313	2,318,654	2,186,947	3,869,924	2,944,593	123,617	20,793,048
Net liquidity gap	2,077,009	(8,035,944)	(1,010,716)	(348,821)	269,460	2,721,272	6,304,436	1,976,696

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.3 Undiscounted cash flows by contractual maturities

The tables below present the cash flows of the Group of non-derivative financial assets and financial liabilities and derivative financial instruments that will be settled on a net basis and on a gross basis by the remaining contractual maturities at the financial reporting date. The amounts disclosed in the tables are the contractual undiscounted cash flows, except for certain derivatives which are disclosed at fair value (i.e. discounted cash flows basis). The Group also manages its inherent short-term liquidity risk based on expected undiscounted cash flows.

	As at 31 December 2020							
	Overdue/ Undated	On demand	Less than 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	Over 5 years	Total
Non-derivative cash flow								
Cash and due from banks and other financial institutions	21	286,457	266,397	93,837	154,977	3,288	–	804,977
Balances with central banks	1,452,254	549,550	39,359	5,717	28,717	1,501	–	2,077,098
Placements with and loans to banks and other financial institutions	377	–	397,904	157,799	292,606	103,768	–	952,454
Loans and advances to customers, net	48,824	191,668	460,253	1,366,761	3,268,668	4,948,258	7,546,587	17,831,019
Financial investments								
— financial assets at fair value through profit or loss	154,788	–	11,227	48,200	82,092	72,271	186,921	555,499
— financial assets at fair value through other comprehensive income	23,454	–	140,321	221,633	310,952	1,055,733	496,895	2,248,988
— financial assets at amortised cost	2,848	–	54,838	95,601	431,641	1,686,591	1,254,753	3,526,272
Other financial assets	478	209,038	16,621	3,870	7,694	1,304	15,546	254,551
Total financial assets	1,683,044	1,236,713	1,386,920	1,993,418	4,577,347	7,872,714	9,500,702	28,250,858
Due to banks and other financial institutions	–	1,351,587	70,933	271,618	218,500	6,297	92	1,919,027
Due to central banks	–	216,855	79,668	117,556	439,242	42,181	–	895,502
Placements from banks and other financial institutions	–	–	244,338	100,902	62,781	5,020	217	413,258
Due to customers	–	8,521,187	1,531,786	1,363,503	2,622,000	3,055,634	8,337	17,102,447
Bonds issued	–	–	67,194	187,282	466,814	515,009	61,165	1,297,464
Other financial liabilities	–	258,397	43,428	11,667	13,519	45,160	26,416	398,587
Total financial liabilities	–	10,348,026	2,037,347	2,052,528	3,822,856	3,669,301	96,227	22,026,285
Derivative cash flow								
Derivative financial instruments settled on a net basis	–	3,588	(468)	93	(2,122)	(7,056)	(992)	(6,957)
Derivative financial instruments settled on a gross basis								
Total inflow	–	67,900	1,980,710	1,476,508	3,001,639	399,425	16,953	6,943,135
Total outflow	–	(67,840)	(1,980,277)	(1,478,891)	(3,032,559)	(395,345)	(16,949)	(6,971,861)

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.3 Undiscounted cash flows by contractual maturities (Continued)

	As at 31 December 2019							
	Overdue/ Undated	On demand	Less than 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	Over 5 years	Total
Non-derivative cash flow								
Cash and due from banks and other financial institutions	21	204,130	183,615	56,074	120,765	3,096	133	567,834
Balances with central banks	1,513,473	527,657	16,249	8,302	12,450	722	–	2,078,853
Placements with and loans to banks and other financial institutions	44	–	417,635	189,233	244,950	56,154	–	908,016
Loans and advances to customers, net	52,895	195,546	484,426	1,298,683	3,086,083	4,534,837	7,151,130	16,803,600
Financial investments								
— financial assets at fair value through profit or loss	143,237	–	16,420	50,340	103,259	84,649	186,039	583,944
— financial assets at fair value through other comprehensive income	22,067	–	142,329	235,681	427,288	1,030,193	561,203	2,418,761
— financial assets at amortised cost	1,798	–	35,530	56,946	554,364	1,543,565	974,147	3,166,350
Other financial assets	1,026	167,792	20,967	1,935	4,506	1,424	14,091	211,741
Total financial assets	1,734,561	1,095,125	1,317,171	1,897,194	4,553,665	7,254,640	8,886,743	26,739,099
Due to banks and other financial institutions	–	1,036,859	125,501	325,279	176,849	7,047	84	1,671,619
Due to central banks	–	180,123	71,548	74,724	526,257	3,787	–	856,439
Placements from banks and other financial institutions	–	–	492,804	71,641	70,322	6,616	14	641,397
Due to customers	–	7,843,233	1,544,280	1,547,409	2,570,184	2,527,791	8,124	16,041,021
Bonds issued	–	–	24,056	150,929	423,073	521,722	36,162	1,155,942
Other financial liabilities	–	220,323	38,040	9,993	20,569	48,656	24,912	362,493
Total financial liabilities	–	9,280,538	2,296,229	2,179,975	3,787,254	3,115,619	69,296	20,728,911
Derivative cash flow								
Derivative financial instruments settled on a net basis	–	1,873	2,324	5,086	(993)	(3,966)	(791)	3,533
Derivative financial instruments settled on a gross basis								
Total inflow	–	104,485	1,790,517	1,514,328	2,672,728	409,405	18,919	6,510,382
Total outflow	–	(103,878)	(1,787,934)	(1,510,528)	(2,673,807)	(409,542)	(18,915)	(6,504,604)

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.4 Off-balance sheet items

The Group's off-balance sheet items are summarised in the table below at the remaining period to the contractual maturity date. Financial guarantees are also included below at notional amounts and based on the earliest contractual maturity date.

	Less than 1 year	Between 1 and 5 years	Over 5 years	Total
As at 31 December 2020				
Loan commitments(1)	**1,874,449**	**623,766**	**241,397**	**2,739,612**
Guarantees, acceptances and other financial facilities	**1,183,873**	**307,349**	**260,839**	**1,752,061**
Subtotal	**3,058,322**	**931,115**	**502,236**	**4,491,673**
Capital commitments	**25,717**	**27,162**	**5**	**52,884**
Total	**3,084,039**	**958,277**	**502,241**	**4,544,557**
As at 31 December 2019				
Loan commitments(1)	1,859,147	587,973	167,961	2,615,081
Guarantees, acceptances and other financial facilities	1,146,111	297,015	284,363	1,727,489
Subtotal	3,005,258	884,988	452,324	4,342,570
Capital commitments	38,814	18,498	–	57,312
Total	3,044,072	903,486	452,324	4,399,882

(1) Included within "Loan commitments" are amounts relating to loan commitments and undrawn credit card limits. Refer to Note V.41.7.

VI FINANCIAL RISK MANAGEMENT (Continued)

6 Fair value

6.1 Assets and liabilities measured at fair value

Assets and liabilities measured at fair value are classified into the following three levels:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities, including equity securities listed on exchanges or debt instruments issued by certain governments and certain exchange-traded derivative contracts.

- Level 2: Valuation technique for which all inputs that have a significant effect on the recorded fair value other than quoted prices included within Level 1 are observable for the asset or liability, either directly or indirectly. This level includes the majority of the over-the-counter ("OTC") derivative contracts, debt securities for which quotations are available from pricing service providers, discounted bills, etc.

- Level 3: Valuation technique using inputs which have a significant effect on the recorded fair value for the asset or liability are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

The Group's policy is to recognise transfers between levels of the fair value hierarchy as at the financial reporting date.

The Group uses valuation techniques or counterparty quotations to determine the fair value when it is unable to obtain open market quotation in active markets.

The main parameters used in valuation techniques include bond prices, interest rates, foreign exchange rates, equity and stock prices, volatilities, correlations, early repayment rates, counterparty credit spreads and others, which are all observable and obtainable from the open market.

For certain illiquid debt securities (mainly asset-backed securities), unlisted equity (private equity), OTC structured derivative transactions and unlisted funds held by the Group, management obtains valuation quotations from counterparties or uses valuation techniques to determine the fair value, including the discounted cash flow analysis, net asset value and market comparison approach, etc. The fair value of these financial instruments may be based on unobservable inputs which may have a significant impact on the valuation of these financial instruments, and therefore, these assets and liabilities have been classified by the Group as Level 3. Management determines whether to make necessary adjustments to the fair value for the Group's Level 3 financial instruments by assessing the impact of changes in macro-economic factors, valuations by external valuation agencies and other inputs, including loss coverage ratios. The Group has established internal control procedures to control the Group's exposure to such financial instruments.

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

6 Fair value (Continued)

6.1 Assets and liabilities measured at fair value (Continued)

	As at 31 December 2020			
	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Derivative financial assets	3,083	168,655	–	171,738
Loans and advances to customers at fair value	–	362,658	–	362,658
Financial assets at fair value through profit or loss				
— Debt securities	2,960	323,402	20,881	347,243
— Equity instruments	7,570	12,901	67,554	88,025
— Fund investments and other	20,961	5,362	42,958	69,281
Financial assets at fair value through other comprehensive income				
— Debt securities	296,234	1,788,755	1,373	2,086,362
— Equity instruments and other	7,005	9,692	4,731	21,428
Investment properties	–	1,441	20,624	22,065
Liabilities measured at fair value				
Due to and placements from banks and other financial institutions at fair value	–	(3,831)	–	(3,831)
Due to customers at fair value	–	(25,742)	–	(25,742)
Bonds issued at fair value	–	(6,162)	–	(6,162)
Short position in debt securities	(576)	(17,336)	–	(17,912)
Derivative financial liabilities	(3,539)	(208,513)	–	(212,052)

	As at 31 December 2019			
	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Derivative financial assets	11,635	81,690	10	93,335
Loans and advances to customers at fair value	–	339,687	–	339,687
Financial assets at fair value through profit or loss				
— Debt securities	9,988	345,296	15,948	371,232
— Equity instruments	6,586	1,154	71,716	79,456
— Fund investments and other	21,747	6,879	38,936	67,562
Financial assets at fair value through other comprehensive income				
— Debt securities	230,606	1,964,070	1,676	2,196,352
— Equity instruments and other	7,425	9,077	5,275	21,777
Investment properties	–	2,330	20,778	23,108
Liabilities measured at fair value				
Due to and placements from banks and other financial institutions at fair value	–	(14,767)	–	(14,767)
Due to customers at fair value	–	(17,969)	–	(17,969)
Bonds issued at fair value	–	(26,113)	–	(26,113)
Short position in debt securities	(2,158)	(17,317)	–	(19,475)
Derivative financial liabilities	(9,762)	(80,298)	–	(90,060)

VI FINANCIAL RISK MANAGEMENT (Continued)

6 Fair value (Continued)

6.1 Assets and liabilities measured at fair value (Continued)

Reconciliation of Level 3 items

	Derivative financial assets	Financial assets at fair value through profit or loss			Financial assets at fair value through other comprehensive income		Investment properties
		Debt Securities	Equity Instruments	Fund investments and other	Debt securities	Equity instruments and other	
As at 1 January 2020	**10**	**15,948**	**71,716**	**38,936**	**1,676**	**5,275**	**20,778**
Total gains and losses							
— profit/(loss)	**122**	**(698)**	**754**	**(1,598)**	**–**	**–**	**(1,426)**
— other comprehensive income	**–**	**–**	**–**	**–**	**161**	**289**	**–**
Sales	**–**	**(1,534)**	**(6,515)**	**(3,301)**	**(359)**	**–**	**(15)**
Purchases	**–**	**6,074**	**14,292**	**9,043**	**–**	**750**	**1,398**
Settlements	**–**	**(1)**	**–**	**–**	**–**	**–**	**–**
Transfers (out)/in of Level 3, net	**(132)**	**–**	**(12,693)**	**–**	**–**	**(1,467)**	**674**
Other changes	**–**	**1,092**	**–**	**(122)**	**(105)**	**(116)**	**(785)**
As at 31 December 2020	**–**	**20,881**	**67,554**	**42,958**	**1,373**	**4,731**	**20,624**
Total (losses)/gains for the period included in the income statement for assets/liabilities held as at 31 December 2020	**–**	**(844)**	**756**	**(1,676)**	**–**	**–**	**(1,427)**

	Derivative financial assets	Financial assets at fair value through profit or loss			Financial assets at fair value through other comprehensive income		Investment properties
		Debt Securities	Equity instruments	Fund investments and other	Debt securities	Equity instruments and other	
As at 1 January 2019	6	8,417	43,089	34,512	1,422	5,364	19,838
Total gains and losses							
— profit/(loss)	10	1,510	(689)	3,245	–	–	355
— other comprehensive income	–	–	–	–	223	(849)	–
Sales	–	(175)	(1,002)	(3,649)	(2)	(2)	(14)
Purchases	–	6,159	30,318	4,708	–	762	2
Settlements	–	–	–	–	–	–	–
Transfers (out)/in of Level 3, net	(6)	–	–	60	–	–	(120)
Other changes	–	37	–	60	33	–	717
As at 31 December 2019	10	15,948	71,716	38,936	1,676	5,275	20,778
Total gains/(losses) for the period included in the income statement for assets/liabilities held as at 31 December 2019	10	1,510	(630)	3,235	–	–	345

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

6 Fair value (Continued)

6.1 Assets and liabilities measured at fair value (Continued)

Total gains or losses for the years ended 31 December 2020 and 2019 included in the income statement as well as total gains or losses included in the income statement relating to financial instruments held as at 31 December 2020 and 2019 are presented in "Net trading gains", "Net gains on transfers of financial asset" or "Impairment losses on assets" depending on the nature or category of the related financial instruments.

Gains or losses on Level 3 assets and liabilities included in the income statement for the year comprise:

	Year ended 31 December					
	2020			2019		
	Realised	Unrealised	Total	Realised	Unrealised	Total
Total gains for the year	**223**	**(3,069)**	**(2,846)**	(39)	4,470	4,431

There were no significant transfers for the financial instruments measured at fair value between Level 1 and Level 2 during the year ended 31 December 2020.

6.2 Financial assets and liabilities not measured at fair value

Financial assets and liabilities not presented at fair value in the statement of financial position mainly represent "Balances with central banks", "Due from banks and other financial institutions", "Placements with and loans to banks and other financial institutions", "Due to central banks", "Due to banks and other financial institutions", "Loans and advances to customers measured at amortised cost", "Financial investments measured at amortised cost", "Placements from banks and other financial institutions at amortised cost", "Due to customers at amortised cost", "Bonds issued at amortised cost" and "Lease liability".

The tables below summarise the carrying amounts and fair values of "Debt securities at amortised cost" and "Bonds issued" not presented at fair value at the financial reporting date.

	As at 31 December			
	2020		2019	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Debt securities at amortised cost(1)	**2,970,277**	**2,989,266**	2,769,400	2,774,641
Financial liabilities				
Bonds issued(2)	**1,238,241**	**1,144,440**	1,069,974	1,069,309

VI FINANCIAL RISK MANAGEMENT (Continued)

6 Fair value (Continued)

6.2 Financial assets and liabilities not measured at fair value (Continued)

(1) Debt securities at amortised cost

The China Orient Bond and Special Purpose Treasury Bond held by the Bank are non-negotiable. As there are no observable market prices or yields reflecting arm's length transactions of a comparable size and tenor, the fair value is determined based on the stated interest rate of the instruments.

Fair values of other debt securities are based on market prices or broker/dealer price quotations. Where this information is not available, the Bank will perform valuation by referring to prices from valuation service providers or on the basis of discounted cash flow models. Valuation parameters include market interest rates, expected future default rates, prepayment rates and market liquidity. The fair values of RMB bonds are mainly determined based on the valuation results provided by China Central Depository & Clearing Co., Ltd.

(2) Bonds issued

The aggregate fair values are calculated based on quoted market prices. For those bonds where quoted market prices are not available, a discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity.

The tables below summarise the fair values of three levels of "Debt securities at amortised cost" (excluding the China Orient Asset Management Corporation Bond and Special Purpose Treasury Bond), and "Bonds issued" not presented at fair value on the statement of financial reporting date.

	As at 31 December 2020			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Debt securities at amortised cost	**96,766**	**2,694,018**	**3,055**	**2,793,839**
Financial liabilities				
Bonds issued	**–**	**1,144,440**	**–**	**1,144,440**

	As at 31 December 2019			
	Level 1	Level 2	Level 3	Total
Financial assets				
Debt securities at amortised cost	71,966	2,505,680	2,062	2,579,708
Financial liabilities				
Bonds issued	–	1,069,309	–	1,069,309

Other than the above, the difference between the carrying amounts and fair values of those financial assets and liabilities not presented at their fair value in the statement of financial position is insignificant. Fair value is measured using a discounted cash flow model.

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

7 Capital management

The Group follows the principles below with regard to capital management:

- Adequate capital and sustainable development. Follow the lead of the strategic planning of the Group's development; and maintain the high quality and adequacy of capital so as to meet regulatory requirements, support business growth, and advance the sustainable development of the scale, quality and performance of the business in the Group.

- Allocation optimisation and benefit augmentation. Allocate capital properly by prioritising the asset businesses with low capital occupancy and high comprehensive income, and steadily improve the efficiency and return of capital, to achieve the reciprocal matchup and dynamic equilibrium among risks, assets and returns.

- Refined management and capital level improvement. Optimise the capital management system by sufficiently identifying, calculating, monitoring, mitigating, and controlling various types of risks; incorporate capital restraints into the whole process of product pricing, resource allocation, structural adjustments, performance evaluation, etc., ensuring that the capital employed is commensurate with the related risks and the level of risk management.

Capital adequacy and regulatory capital are monitored by the Group's management, employing techniques based on the guidelines developed by the Basel Committee, as implemented by the CBIRC, for supervisory purposes. The required information is filed with the CBIRC on a quarterly basis.

The Group's capital adequacy ratios are calculated in accordance with the *Capital Rules for Commercial Banks (Provisional)* and other relevant regulations. With the approval of the CBIRC, the Group adopts the advanced capital measurement approaches, which include Foundation Internal Ratings-based Approach for corporate exposures, Internal Ratings-based Approach for retail exposures, Internal Models Approach for market risk and Standardised Approach for operational risk. For risk exposures not covered by the advanced approaches, the corresponding portion shall be calculated adopting non-advanced approaches.

As a Systemically Important Bank, the Group's capital adequacy ratios are required to meet the lowest requirements of the CBIRC, that is, the common equity tier 1 capital adequacy ratio, tier 1 capital adequacy ratio and capital adequacy ratio should be no less than 9.00%, 10.00% and 12.00%, respectively.

The Group's regulatory capital is managed by its capital management related departments and consists of the following:

- Common equity tier 1 capital, including common shares, capital reserve, surplus reserve, general reserve, undistributed profits, eligible portion of minority interests and others;

- Additional tier 1 capital, including additional tier 1 capital instruments issued and related premium and eligible portion of minority interests;

- Tier 2 capital, including tier 2 capital instruments issued and related premium, excess loan loss provisions and eligible portion of minority interests.

Goodwill, other intangible assets (except land use rights), investments in common equity tier 1 capital of financial institutions with controlling interests but outside of the scope of regulatory consolidation, significant minority capital investment in tier 2 capital of financial institutions that are outside of the scope of regulatory consolidation and other deductible items are deducted from common equity tier 1 and tier 2 capital to derive at the regulatory capital.

VI FINANCIAL RISK MANAGEMENT (Continued)

7 Capital management (Continued)

The table below summarises the Group's common equity tier 1 capital adequacy ratio, tier 1 capital adequacy ratio and capital adequacy ratio[(1)] calculated in accordance with the *Capital Rules for Commercial Banks (Provisional)* and other relevant regulations:

	As at 31 December	
	2020	2019
Common equity tier 1 capital adequacy ratio	**11.28%**	11.30%
Tier 1 capital adequacy ratio	**13.19%**	12.79%
Capital adequacy ratio	**16.22%**	15.59%
Composition of the Group's capital base		
Common equity tier 1 capital	**1,730,401**	1,620,563
Common shares	**294,388**	294,388
Capital reserve	**134,221**	134,269
Surplus reserve	**192,251**	173,832
General reserve	**267,856**	249,983
Undistributed profits	**803,823**	721,731
Eligible portion of minority interests	**32,567**	30,528
Other[(2)]	**5,295**	15,832
Regulatory deductions	**(25,623)**	(24,185)
Of which:		
Goodwill	**(182)**	(182)
Other intangible assets (except land use rights)	**(15,140)**	(12,936)
Direct or indirect investments in own shares	**(8)**	(7)
Investments in common equity tier 1 capital of financial institutions with controlling interests but outside the scope of regulatory consolidation	**(9,838)**	(9,955)
Net common equity tier 1 capital	**1,704,778**	1,596,378
Additional tier 1 capital	**287,843**	210,057
Preference shares and related premium	**147,519**	159,901
Other instruments and related premium	**129,971**	39,992
Eligible portion of minority interests	**10,353**	10,164
Net tier 1 capital	**1,992,621**	1,806,435
Tier 2 capital	**458,434**	394,843
Tier 2 capital instruments issued and related premium	**333,381**	280,092
Excess loan loss provisions	**115,627**	105,127
Eligible portion of minority interests	**9,426**	9,624
Regulatory deductions	**–**	–
Significant minority capital investment in tier 2 capital of financial institutions that are outside of the scope of regulatory consolidation	**–**	–
Net capital	**2,451,055**	2,201,278
Risk-weighted assets	**15,109,085**	14,123,915

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

7 Capital management (Continued)

(1) When calculating the capital adequacy ratios, BOCG Investment, Bank of China Insurance Company Limited ("BOC Insurance"), Bank of China Group Insurance Company Limited ("BOCG Insurance") and Bank of China Group Life Assurance Company Limited ("BOCG Life") were excluded from the scope of consolidation in accordance with the requirements of the CBIRC.

(2) This mainly represented exchange differences from the translation of foreign operations and gains/(losses) on financial assets at fair value through other comprehensive income.

8 Insurance risk

Insurance contracts are mainly sold in the Chinese mainland and Hong Kong denominated in RMB and HKD. The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. This risk is inherently random and, therefore, unpredictable. The Group manages its portfolio of insurance risks through its underwriting strategy and policies, portfolio management techniques, adequate reinsurance arrangements and proactive claims handling and processing. The underwriting strategy attempts to ensure that the underwritten risks are well diversified in terms of type and amount of risk and industry.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Group faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of the claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the level established using statistical techniques.

Uncertainty in the estimation of future benefit payments and premium receipts for long-term life insurance contracts arises from the unpredictability of long-term changes in overall levels of mortality. In order to assess the uncertainty due to the mortality assumption and lapse assumption, the Group conducted mortality rate studies and policy lapse studies in order to determine the appropriate assumptions.

Supplementary Information

(Amount in millions of Renminbi, unless otherwise stated)

I DIFFERENCES BETWEEN IFRS AND CAS CONSOLIDATED FINANCIAL STATEMENTS

There are no differences in the Group's operating results for the years ended 31 December 2020 and 2019 or total equity as at 31 December 2020 and 2019 presented in the Group's consolidated financial statements prepared under IFRS and those prepared under CAS.

II UNAUDITED SUPPLEMENTARY INFORMATION

1 Liquidity ratios, liquidity coverage ratio and net stable funding ratio

	As at 31 December	
	2020	2019
RMB current assets to RMB current liabilities	**54.50%**	54.56%
Foreign currency current assets to foreign currency current liabilities	**58.57%**	60.38%

The liquidity ratios are calculated in accordance with the relevant provisions of the CBIRC.

Liquidity coverage ratio

According to the *Disclosure Rules on Liquidity Coverage Ratio of Commercial Banks*, the Group disclosed the information of liquidity coverage ratio ("LCR")[1] as follows.

Regulatory requirements of liquidity coverage ratio

As stipulated by the *Rules on Liquidity Risk Management of Commercial Banks* issued by CBIRC, the minimum regulatory requirement of LCR is 100%.

The Group's liquidity coverage ratio

Since 2017, the Group measured the LCR on a day-to-day consolidated basis[2]. In the fourth quarter of 2020, the Group measured 92-day LCR on this basis, with average ratio[3] standing at 139.79%, representing an increase of 2.43 percentage points over the previous quarter, which was primarily due to the increase in the high-quality liquid assets ("HQLA").

	2020			
	Quarter ended 31 December	**Quarter ended 30 September**	**Quarter ended 30 June**	**Quarter ended 31 March**
Average value of LCR	**139.79%**	**137.36%**	**140.71%**	**141.32%**

(Amount in millions of Renminbi, unless otherwise stated)

II UNAUDITED SUPPLEMENTARY INFORMATION (Continued)

1 Liquidity ratios, liquidity coverage ratio and net stable funding ratio (Continued)

The Group's liquidity coverage ratio (Continued)

The Group's average values[3] of consolidated LCR individual line items in the fourth quarter of 2020 are as follows:

No.		Total unweighted value	Total weighted value
High-quality liquid assets			
1	Total high-quality liquid assets (HQLA)		4,519,319
Cash outflows			
2	Retail deposits and deposits from small business customers, of which:	7,926,016	580,381
3	Stable deposits	4,103,190	198,099
4	Less stable deposits	3,822,826	382,282
5	Unsecured wholesale funding, of which:	9,729,241	3,627,975
6	Operational deposits (excluding those generated from correspondent banking activities)	5,458,396	1,338,809
7	Non-operational deposits (all counterparties)	4,170,395	2,188,716
8	Unsecured debts	100,450	100,450
9	Secured funding		1,478
10	Additional requirements, of which:	3,022,759	1,782,525
11	Outflows related to derivative exposures and other collateral requirements	1,677,186	1,677,186
12	Outflows related to loss of funding on debt products	–	–
13	Credit and liquidity facilities	1,345,573	105,339
14	Other contractual funding obligations	75,640	75,640
15	Other contingent funding obligations	2,979,474	85,094
16	**Total cash outflows**		**6,153,093**
Cash inflows			
17	Secured lending (including reverse repos and securities borrowing)	259,693	130,615
18	Inflows from fully performing exposures	1,667,025	1,007,484
19	Other cash inflows	1,871,578	1,772,360
20	**Total cash inflows**	**3,798,296**	**2,910,459**
			Total adjusted value
21	**Total HQLA**		**4,519,319**
22	**Total net cash outflows**		**3,242,634**
23	**Liquidity coverage ratio**		**139.79%**

(1) The LCR aims to ensure that commercial banks have sufficient HQLA that can be converted into cash to meet the liquidity requirements for at least thirty days under stress scenarios determined by the CBIRC.

(2) When calculating the consolidated LCR, BOCG Investment, BOC Insurance, BOCG Insurance and BOCG Life were excluded from the scope of consolidation in accordance with the requirements of the CBIRC.

(3) The average of LCR and the averages of all related individual items are the day-end simple arithmetic averages of figures over each quarter.

II UNAUDITED SUPPLEMENTARY INFORMATION (Continued)

1 Liquidity ratios, liquidity coverage ratio and net stable funding ratio (Continued)

Net stable funding ratio

In accordance with the *Disclosure Rules on Net Stable Funding Ratio of Commercial Banks*, the Group disclosed the information of net stable funding ratio ("NSFR")(1) as follows.

Regulatory requirements of net stable funding ratio

As stipulated by the *Rules on Liquidity Risk Management of Commercial Banks* issued by CBIRC, the minimum regulatory requirement of NSFR is 100%.

The Group's net stable funding ratio

As stipulated by the *Disclosure Rules on Net Stable Funding Ratio of Commercial Banks* issued by CBIRC, banks approved to implement the advanced approaches of capital measurement by CBIRC in accordance with *Capital Rules for Commercial Banks (Provisional)* shall disclose the information of net stable funding ratio for the preceding two consecutive quarters at least semi-annually.

As at 31 December 2020, the Group's NSFR was 123.50% on a consolidated basis(2), representing an increase of 0.21 percentage point over the previous quarter. As at 30 September 2020, the Group's NSFR was 123.29%, representing a decrease of 1.29 percentage points over the previous quarter. The Group's NSFR remained stable, and met the regulatory requirement.

	2020			
	Quarter ended 31 December	Quarter ended 30 September	Quarter ended 30 June	Quarter ended 31 March
Ending value of NSFR(3)	**123.50%**	**123.29%**	**124.58%**	**124.72%**

(1) NSFR is introduced to ensure commercial banks have sufficient stable funding to meet the requirements of assets and off-balance sheet exposures.

(2) When calculating the consolidated NSFR, BOCG Investment, BOC Insurance, BOCG Insurance and BOCG Life were excluded from the scope of consolidation in accordance with the requirements of the CBIRC.

(3) NSFR are the ending values of each quarter.

(Amount in millions of Renminbi, unless otherwise stated)

II UNAUDITED SUPPLEMENTARY INFORMATION (Continued)

1 Liquidity ratios, liquidity coverage ratio and net stable funding ratio (Continued)

The Group's net stable funding ratio (Continued)

The Group's consolidated NSFR individual line items at the end of the fourth quarter of 2020 are as follows:

		Unweighted value				
No.	Items	No maturity	<6 months	6–12 months	≥1 year	Weighted value
Available Stable Funding (ASF) Item						
1	Capital	–	–	–	2,376,563	2,376,563
2	Regulatory capital	–	–	–	2,326,563	2,326,563
3	Other capital instruments	–	–	–	50,000	50,000
4	Retail deposits and deposits from small business customers	4,160,580	4,429,482	51,427	23,008	8,016,873
5	Stable deposits	1,840,110	2,475,206	15,169	8,909	4,122,870
6	Less stable deposits	2,320,470	1,954,276	36,258	14,099	3,894,003
7	Wholesale funding	5,491,837	5,416,872	840,239	508,262	5,418,260
8	Operational deposits	4,967,425	333,516	–	–	2,650,470
9	Other wholesale funding	524,412	5,083,356	840,239	508,262	2,767,790
10	Liabilities with matching interdependent assets	–	–	–	–	–
11	Other liabilities	59,755	215,086	4,656	530,037	303,740
12	NSFR derivatives liabilities				228,625	
13	All other liabilities and equity not included in the above categories	59,755	215,086	4,656	301,412	303,740
14	**Total ASF**					16,115,436
Required Stable Funding (RSF) Item						
15	Total NSFR high-quality liquid assets					656,960
16	Deposits held at other financial institutions for operational purposes	150,126	1,565	–	–	75,846
17	Loans and securities	42,809	4,377,337	2,081,267	9,658,315	10,831,615
18	Loans to financial institutions secured by Level 1 assets	–	144,801	–	–	14,480
19	Loans to financial institutions secured by non-Level 1 assets and unsecured loans to financial institutions	42,809	1,263,313	374,159	99,167	482,165
20	Loans to retail and small business customers, non-financial institutions, sovereigns, central banks and public sector entities (PSEs) of which:	–	2,535,741	1,506,960	4,795,063	6,021,096
21	With a risk weight of less than or equal to 35%	–	226,232	15,685	1,944	48,258

II UNAUDITED SUPPLEMENTARY INFORMATION (Continued)

1 Liquidity ratios, liquidity coverage ratio and net stable funding ratio (Continued)

The Group's net stable funding ratio (Continued)

The Group's consolidated NSFR individual line items at the end of the fourth quarter of 2020 are as follows (Continued):

		Unweighted value				
No.	Items	No maturity	<6 months	6–12 months	≥1 year	Weighted value
	Required Stable Funding (RSF) Item (Continued)					
22	Residential mortgages of which:	–	106,581	96,347	4,242,902	3,654,983
23	With a risk weight of less than or equal to 35%	–	6,267	6,405	264,738	178,416
24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	–	326,901	103,801	521,183	658,891
25	Assets with matching interdependent liabilities	–	–	–	–	–
26	Other assets	707,814	89,272	8,979	636,959	1,231,642
27	Physical traded commodities, including gold	248,374				211,118
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs				253	215
29	NSFR derivatives assets				187,128	–
30	NSFR derivatives liabilities with additional requirements				45,725*	45,725
31	All other assets not included in the above categories	459,440	89,272	8,979	449,578	974,584
32	Off-balance sheet items				6,358,448	253,134
33	**Total RSF**					13,049,197
34	**NSFR**					123.50%

* Report derivative liabilities before deducting variation margin posted. There is no need to differentiate by maturities. The unweighted value should be excluded from the total value of item No. 26 "Other assets".

(Amount in millions of Renminbi, unless otherwise stated)

II UNAUDITED SUPPLEMENTARY INFORMATION (Continued)

1 Liquidity ratios, liquidity coverage ratio and net stable funding ratio (Continued)

The Group's net stable funding ratio (Continued)

The Group's consolidated NSFR individual line items at the end of the third quarter of 2020 are as follows:

		Unweighted value				
No.	Items	No maturity	<6 months	6–12 months	≥1 year	Weighted value
Available Stable Funding (ASF) Item						
1	Capital	–	–	–	2,330,873	2,330,873
2	Regulatory capital	–	–	–	2,280,873	2,280,873
3	Other capital instruments	–	–	–	50,000	50,000
4	Retail deposits and deposits from small business customers	4,047,200	4,488,180	80,361	22,866	7,990,842
5	Stable deposits	1,778,063	2,467,941	30,194	9,088	4,071,476
6	Less stable deposits	2,269,137	2,020,239	50,167	13,778	3,919,366
7	Wholesale funding	5,818,537	5,689,034	662,938	537,422	5,300,389
8	Operational deposits	4,938,804	233,839	–	–	2,586,321
9	Other wholesale funding	879,733	5,455,195	662,938	537,422	2,714,068
10	Liabilities with matching interdependent assets	–	–	–	–	–
11	Other liabilities	45,413	215,330	4,404	498,669	332,102
12	NSFR derivatives liabilities				168,769	
13	All other liabilities and equity not included in the above categories	45,413	215,330	4,404	329,900	332,102
14	**Total ASF**					15,954,206
Required Stable Funding (RSF) Item						
15	Total NSFR high-quality liquid assets					578,910
16	Deposits held at other financial institutions for operational purposes	217,062	12,953	–	–	115,008
17	Loans and securities	67,474	4,933,359	2,116,178	9,462,892	10,765,285
18	Loans to financial institutions secured by Level 1 assets	–	116,181	–	104	11,722
19	Loans to financial institutions secured by non-Level 1 assets and unsecured loans to financial institutions	67,474	1,579,692	373,652	105,644	539,545
20	Loans to retail and small business customers, non-financial institutions, sovereigns, central banks and public sector entities (PSEs) of which:	–	2,777,945	1,524,586	4,760,203	6,020,447
21	With a risk weight of less than or equal to 35%	–	400,668	13,850	2,897	34,473

II UNAUDITED SUPPLEMENTARY INFORMATION (Continued)

1 Liquidity ratios, liquidity coverage ratio and net stable funding ratio (Continued)

The Group's net stable funding ratio (Continued)

The Group's consolidated NSFR individual line items at the end of the third quarter of 2020 are as follows (Continued):

No.	Items	Unweighted value No maturity	Unweighted value <6 months	Unweighted value 6–12 months	Unweighted value ≥1 year	Weighted value
Required Stable Funding (RSF) Item (Continued)						
22	Residential mortgages of which:	–	153,521	95,740	4,133,769	3,585,248
23	With a risk weight of less than or equal to 35%	–	6,284	6,341	265,429	178,841
24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	–	306,020	122,200	463,172	608,323
25	Assets with matching interdependent liabilities	–	–	–	–	–
26	Other assets	689,418	93,151	646	620,273	1,233,157
27	Physical traded commodities, including gold	247,673				210,522
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs				384	326
29	NSFR derivatives assets				150,063	–
30	NSFR derivatives liabilities with additional requirements				33,754*	33,754
31	All other assets not included in the above categories	441,745	93,151	646	469,826	988,555
32	Off-balance sheet items				6,247,471	248,042
33	**Total RSF**					12,940,402
34	**NSFR**					123.29%

* Report derivative liabilities before deducting variation margin posted. There is no need to differentiate by maturities. The unweighted value should be excluded from the total value of item No. 26 "Other assets".

(Amount in millions of Renminbi, unless otherwise stated)

II UNAUDITED SUPPLEMENTARY INFORMATION (Continued)

2 Currency concentrations

The following information is computed in accordance with the provisions of the CBIRC.

	Equivalent in millions of RMB			
	USD	HKD	Other	Total
As at 31 December 2020				
Spot assets	**3,695,294**	**1,607,291**	**1,945,381**	**7,247,966**
Spot liabilities	**(4,029,848)**	**(1,964,590)**	**(1,736,612)**	**(7,731,050)**
Forward purchases	**4,944,883**	**760,105**	**1,313,088**	**7,018,076**
Forward sales	**(4,546,040)**	**(420,572)**	**(1,536,300)**	**(6,502,912)**
Net options position*	**(19,306)**	**(364)**	**(6,615)**	**(26,285)**
Net long/(short) position	**44,983**	**(18,130)**	**(21,058)**	**5,795**
Structural position	**61,978**	**233,953**	**79,913**	**375,844**
As at 31 December 2019				
Spot assets	3,784,665	1,633,488	1,693,247	7,111,400
Spot liabilities	(4,215,368)	(1,916,106)	(1,510,286)	(7,641,760)
Forward purchases	5,535,200	764,557	1,300,956	7,600,713
Forward sales	(5,025,682)	(508,295)	(1,486,820)	(7,020,797)
Net options position*	(43,404)	193	(1,455)	(44,666)
Net long/(short) position	35,411	(26,163)	(4,358)	4,890
Structural position	52,219	207,904	72,658	332,781

* The net option position is calculated in accordance with the relevant provisions of the CBIRC.

II UNAUDITED SUPPLEMENTARY INFORMATION (Continued)

3 International claims

The Group discloses international claims according to *Banking (Disclosure) Rules* (L.N. 160 of 2014). International claims are risk exposures generated from the countries or geographical areas where the counterparties take the ultimate risk while considering the transfer of the risk, exclude local claims on local residents in local currency. Risk transfer is only made if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a counterparty whose head office is located in another country.

International claims include "Balances with central banks", "Due from and placements with and loans to banks and other financial institutions", "Government certificates of indebtedness for bank notes issued", "Loans and advances to customers" and "Financial investments", etc.

International claims have been disclosed by major countries or geographical areas. A country or geographical area is reported where it constitutes 10% or more of the aggregate amount of international claims, after taking into account any risk transfers.

	Banks	Official sector	Non-bank private sector	Total
As at 31 December 2020				
Asia Pacific				
Chinese mainland	**675,133**	**236,529**	**702,641**	**1,614,303**
Hong Kong	**40,671**	**214**	**442,402**	**483,287**
Other Asia Pacific locations	**97,249**	**166,292**	**417,733**	**681,274**
Subtotal	**813,053**	**403,035**	**1,562,776**	**2,778,864**
North and South America	**81,312**	**233,162**	**173,112**	**487,586**
Other	**201,540**	**63,838**	**283,718**	**549,096**
Total	**1,095,905**	**700,035**	**2,019,606**	**3,815,546**
As at 31 December 2019				
Asia Pacific				
Chinese mainland	609,837	224,384	695,975	1,530,196
Hong Kong	21,328	116	511,403	532,847
Other Asia Pacific locations	91,641	144,997	419,521	656,159
Subtotal	722,806	369,497	1,626,899	2,719,202
North and South America	99,213	255,953	152,444	507,610
Other	72,504	72,533	252,889	397,926
Total	894,523	697,983	2,032,232	3,624,738

(Amount in millions of Renminbi, unless otherwise stated)

II UNAUDITED SUPPLEMENTARY INFORMATION (Continued)

4 Overdue assets

For the purpose of the table below, the entire outstanding balance of "Loans and advances to customers" and "Placements with and loans to banks and other financial institutions" are considered overdue if either principal or interest payment is overdue.

4.1 Total amount of overdue loans and advances to customers

	As at 31 December	
	2020	2019
Total loans and advances to customers which have been overdue		
within 3 months	**54,342**	62,838
between 3 and 6 months	**24,001**	22,789
between 6 and 12 months	**47,097**	22,653
over 12 months	**53,944**	54,349
Total	**179,384**	162,629
Percentage		
within 3 months	**0.38%**	0.48%
between 3 and 6 months	**0.17%**	0.17%
between 6 and 12 months	**0.33%**	0.18%
over 12 months	**0.38%**	0.42%
Total	**1.26%**	1.25%

4.2 Total amount of overdue Placements with and loans to banks and other financial institutions

The total amount of overdue "Placements with and loans to banks and other financial institutions" as at 31 December 2020 and 2019 is not considered material.

5 Leverage ratio

The leverage ratios of the Group calculated in accordance with the *Administrative Measures for the Leverage Ratio of Commercial Banks (Revised)* and the *Capital Rules for Commercial Banks (Provisional)* are as follows[(1)]:

	2020			
	As at 31 December	As at 30 September	As at 30 June	As at 31 March
Net tier 1 capital	**1,992,621**	**1,940,169**	**1,910,664**	**1,886,811**
Adjusted on- and off-balance sheet assets	**25,880,515**	**26,136,582**	**25,687,399**	**25,579,088**
Leverage ratio	**7.70%**	**7.42%**	**7.44%**	**7.38%**

II UNAUDITED SUPPLEMENTARY INFORMATION (Continued)

5 Leverage ratio (Continued)

No.	Items	As at 31 December 2020
1	Total consolidated assets	**24,402,659**
2	Adjustments that are consolidated for accounting purposes but outside the scope of regulatory consolidation	**(9,838)**
3	Adjustments for fiduciary assets	**–**
4	Adjustments for derivative financial instruments	**148,018**
5	Adjustments for securities financing transactions	**69,433**
6	Adjustments for off-balance sheet exposures	**1,700,588**
7	Other adjustments	**(430,345)**
8	Adjusted on- and off-balance sheet assets	**25,880,515**

No.	Items	As at 31 December 2020
1	On-balance sheet assets (excluding derivatives and securities financing transactions)	**23,586,305**
2	Less: Tier 1 capital deductions	**(25,623)**
3	**Total on-balance sheet exposures (excluding derivatives and SFTs)**	**23,560,682**
4	Replacement cost associated with all derivative transactions (i.e. net of eligible cash variation margin)	**171,619**
5	Add-on amounts for potential future exposure associated with all derivative transactions	**147,966**
6	Gross-up for derivative collateral provided where deducted from the balance sheet assets	**–**
7	Less: Deductions of receivable assets for cash variation margin provided in derivative transactions	**–**
8	Less: Exempted CCP leg of client-cleared trade exposures	**–**
9	Adjusted effective notional amount of written credit derivatives	**181**
10	Less: Deductible amounts for written credit derivatives	**(11)**
11	**Total derivative exposures**	**319,755**
12	Accounting balance for securities financing transaction assets	**229,894**
13	Less: Deducted amounts for securities financing transaction assets	**–**
14	Counterparty credit risk exposure for securities financing transaction assets	**69,596**
15	Agent transaction exposures	**–**
16	**Balance of assets in securities financing transactions**	**299,490**
17	Off-balance sheet items	**4,949,484**
18	Less: Adjustments for conversion to credit equivalent amounts	**(3,248,896)**
19	**Adjusted off-balance sheet exposures**	**1,700,588**
20	Net tier 1 capital	**1,992,621**
21	Adjusted on- and off-balance sheet exposures	**25,880,515**
22	**Leverage ratio**	**7.70%**

(1) When calculating the consolidated leverage ratio, BOCG Investment, BOC Insurance, BOCG Insurance and BOCG Life were excluded from the scope of consolidation in accordance with the *Capital Rules for Commercial Banks (Provisional)*.

(Amount in millions of Renminbi, unless otherwise stated)

II UNAUDITED SUPPLEMENTARY INFORMATION (Continued)

6 Global systemic importance assessment indicators of commercial banks

The Group calculated the global systemically important banks assessment indicators by using the *Notice on Issuing the Guidelines for the Disclosure of the Indicators for Assessing Global Systemic Importance of Commercial Banks* (Yin Jian Fa, [2014] No. 1) as a reference basis, and based on the *Instructions for G-SIB assessment exercise* by the Basel Committee on Banking Supervision. The indicators are disclosed as follows.

No.	Indicators(1)	2020 value
1	Adjusted on-balance and off-balance sheet assets	**25,906,168**
2	Intra-financial system assets	**2,369,000**
3	Intra-financial system liabilities	**2,205,257**
4	Securities and other financing instruments	**3,640,065**
5	Payments settled via payment systems or correspondent banks	**618,018,673**
6	Assets under custody	**11,786,042**
7	Underwritten transactions in debt and equity markets	**2,246,361**
8	Notional amount of over-the-counter derivatives	**11,011,046**
9	Trading and available for sale securities	**847,023**
10	Level 3 assets	**72,190**
11	Cross-jurisdictional claims	**4,084,894**
12	Cross-jurisdictional liabilities	**4,646,015**

(1) The above indicators are calculated and disclosed in accordance with the *Guidelines for the Disclosure of Global Systemic Importance Assessment Indicators of Commercial Banks*, which are unaudited and inconsistent with the disclosures in the financial report.

Independent Auditor's Report

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

To the shareholders of Bank of China Limited
(Established in the People's Republic of China with limited liability)

Opinion

We have audited the consolidated financial statements of Bank of China Limited (the "Bank") and its subsidiaries (the "Group") set out on pages 144 to 298, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

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

Key Audit Matters

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

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

Key Audit Matters (Continued)

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of loans and advances to customers	
The Group uses a number of models and assumptions in the measurement of expected credit losses, for example: • Significant increase in credit risk — The selection of criteria for identifying significant increase in credit risk is highly dependent on judgement and may have a significant impact on the expected credit losses for loans with longer remaining periods to maturity; • Models and parameters — Inherently complex models are used to measure expected credit losses. Modelled parameters have numerous inputs and the parameter estimation involves many judgements and assumptions; • Forward-looking information — Expert judgement is used to create macroeconomic forecasts and to consider the impact on expected credit losses under multiple economic scenarios given different weights; • Individual impairment assessment — Identifying credit impaired loans requires consideration of a range of factors, and individual impairment assessments are dependent upon estimates of future cash flows. Since loan impairment assessment involves many judgements and assumptions, and in view of the significance of the amount (as at 31 December 2019, gross loans and advances to customers amounted to RMB13,068,785 million, representing 57% of total assets, and impairment allowance for loans and advances to customers amounted to RMB325,923 million), impairment of loans and advances is considered a key audit matter. Relevant disclosures are included in Note III.1, Note V.17 and Note VI.3 to the consolidated financial statements.	We evaluated and tested the effectiveness of design and implementation of key controls related to the credit approval process, post approval credit management, loan grading system, collateral monitoring and loan impairment assessment, including relevant data quality and information systems. We adopted a risk-based sampling approach in our loan review procedures. We assessed the debtors' repayment capacity and evaluated the Group's loan grading, taking into consideration post-lending investigation reports, debtors' financial information, collateral valuation reports and other available information. With the support of our internal credit risk modelling experts, we evaluated and tested the important parameters of the expected credit loss model, management's major judgements and related assumptions, mainly focusing on the following aspects: 1. Expected credit loss model: • Assessed the reasonableness of the expected credit loss model methodology and related parameters, including probability of default, loss given default, risk exposure, and significant increase in credit risk; • Assessed the forward-looking information management used to determine expected credit losses, including the forecasts of macroeconomic variables and the assumptions of multiple macroeconomic scenarios; • Evaluated the models and the related assumptions used in individual impairment assessment and analysed the amount, timing and likelihood of management's estimated future cash flows, especially cash flows from collateral.

Key Audit Matters (Continued)

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of loans and advances to customers (Continued)	
	2. Design and operating effectiveness of key controls: • Evaluated and tested the data and processes used to determine expected credit loss, including loan business data, internal credit rating data, macroeconomic data, as well as impairment system computational logic, inputs and interfaces among relevant systems; • Evaluated and tested key controls over expected credit loss models, including approval of model changes, ongoing monitoring model performance, model validation and parameter calibration. We evaluated and tested the design and operating effectiveness of internal controls related to disclosures of credit risk and impairment allowance.
Valuation of financial instruments	
The Group has applied valuation techniques to determine the fair value of financial instruments that are not quoted in active markets including bonds, funds, equity investments and over-the-counter derivatives. These valuation techniques, particularly those requiring significant unobservable inputs, usually involve subjective judgement and assumptions. Valuation results can vary significantly when different valuation techniques and assumptions are applied. As at 31 December 2019, financial instruments measured at fair value of the Group mainly included RMB2,736,379 million in financial investments, representing 12% of total assets. Financial instruments which require significant unobservable inputs in estimating fair value, and hence categorised within level 3 of the fair value hierarchy, involve higher uncertainty in their valuation. As at 31 December 2019, 5% of financial investments measured at fair value were categorised within level 3. Due to the significance of financial instruments measured at fair value, and the uncertainty in valuation involving significant judgement for unlisted equity and fund investments as well as illiquid asset-backed securities, valuation of these financial instruments is considered a key audit matter. Relevant disclosures are included in Note III.2 and Note VI.6 to the consolidated financial statements.	We evaluated and tested the design and operating effectiveness of key controls related to valuation of financial instruments, independent price verification, and independent model validation and approval. We evaluated the valuation techniques, inputs and assumptions through comparison with the valuation techniques commonly used in the markets, validation of observable inputs using external market data, and comparison with valuation outcomes obtained from various pricing sources. For valuations which used significant unobservable inputs, such as unlisted equity investments and private equity fund investments, we involved our internal valuation specialists in assessing the models used, re-performing independent valuations, and analysing the sensitivities of valuation results to key inputs and assumptions. We evaluated and tested the design and operating effectiveness of internal controls related to disclosures of fair value.

Key Audit Matters (Continued)

Key audit matter	How our audit addressed the key audit matter
Structured entities	
The Group has interests in various structured entities, such as bank wealth management products, funds and trust plans, in conducting financial investments, asset management business and credit assets transfers. The Group determines whether or not to consolidate these structured entities based on the assessment of whether the Group has control taking into consideration power arising from rights, variable returns, and link between power and returns. The assessment of the Group's control over structured entities involves significant judgement on factors such as the purpose and design of structured entities, its ability to direct the relevant activities, direct and indirect beneficial interests and returns, performance fee, remuneration and exposure to loss from providing credit enhancement or liquidity support. Due to the significance of the unconsolidated structured entities and the complexity of judgement exercised by management, consolidation or non-consolidation of structured entities is considered a key audit matter. Relevant disclosures are included in Note III.7 and Note V.46 to the consolidated financial statements.	We evaluated and tested the design and operating effectiveness of the key controls related to the Group's assessment of whether it controls a structured entity. We assessed the Group's analysis and conclusions on whether or not it controls structured entities based on the Group's analysis on its power over structured entities, and the magnitude and variability of variable returns from its involvement with structured entities. We also assessed whether the Group has legal or constructive obligation to absorb any loss of structured entities by reviewing relevant term sheets, and whether the Group has provided liquidity support or credit enhancement to structured entities, as well as the fairness of transactions between the Group and structured entities. We evaluated and tested the design and operating effectiveness of internal controls related to disclosures of unconsolidated structured entities.

Other Information included in the Annual Report

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

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

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

Responsibilities of the Directors for the Consolidated Financial Statements

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

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

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

Ernst & Young
Certified Public Accountants

Hong Kong
27 March 2020

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CONTENTS (Continued)

Consolidated Income Statement

For the year ended 31 December 2019 (Amount in millions of Renminbi, unless otherwise stated)

		Year ended 31 December	
	Note	**2019**	2018
Interest income	V.1	**742,207**	687,900
Interest expense	V.1	**(367,957)**	(328,194)
Net interest income		**374,250**	359,706
Fee and commission income	V.2	**104,917**	99,997
Fee and commission expense	V.2	**(15,305)**	(12,789)
Net fee and commission income		**89,612**	87,208
Net trading gains	V.3	**28,563**	6,719
Net gains on transfers of financial asset	V.4	**3,477**	2,817
Other operating income	V.5	**54,108**	47,356
Operating income		**550,010**	503,806
Operating expenses	V.6	**(198,269)**	(176,979)
Impairment losses on assets	V.9	**(102,153)**	(99,294)
Operating profit		**249,588**	227,533
Share of results of associates and joint ventures	V.19	**1,057**	2,110
Profit before income tax		**250,645**	229,643
Income tax expense	V.10	**(48,754)**	(37,208)
Profit for the year		**201,891**	192,435
Attributable to:			
Equity holders of the Bank		**187,405**	180,086
Non-controlling interests		**14,486**	12,349
		201,891	192,435
Earnings per share (in RMB)	V.11		
— Basic		**0.61**	0.59
— Diluted		**0.61**	0.59

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

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

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2019 (Amount in millions of Renminbi, unless otherwise stated)

	Note	Year ended 31 December	
		2019	2018
Profit for the year		**201,891**	192,435
Other comprehensive income:	V.12		
Items that will not be reclassified to profit or loss			
— Actuarial gains/(losses) on defined benefit plans		**13**	(103)
— Changes in fair value on investments in equity instruments designated at fair value through other comprehensive income		**2,146**	(1,216)
— Other		**(69)**	(52)
Subtotal		**2,090**	(1,371)
Items that may be reclassified subsequently to profit or loss			
— Changes in fair value on investments in debt instruments measured at fair value through other comprehensive income		**11,919**	22,072
— Allowance for credit losses on investments in debt instruments measured at fair value through other comprehensive income		**515**	(600)
— Share of other comprehensive income of associates and joint ventures accounted for using the equity method		**(440)**	59
— Exchange differences from the translation of foreign operations		**7,089**	12,775
— Other		**602**	197
Subtotal		**19,685**	34,503
Other comprehensive income for the year, net of tax		**21,775**	33,132
Total comprehensive income for the year		**223,666**	225,567
Total comprehensive income attributable to:			
Equity holders of the Bank		**205,601**	209,946
Non-controlling interests		**18,065**	15,621
		223,666	225,567

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

Consolidated Statement of Financial Position

As at 31 December 2019 (Amount in millions of Renminbi, unless otherwise stated)

	Note	As at 31 December 2019	2018
ASSETS			
Cash and due from banks and other financial institutions	V.13	**565,467**	439,931
Balances with central banks	V.14	**2,078,809**	2,331,053
Placements with and loans to banks and other financial institutions	V.15	**898,959**	1,042,358
Government certificates of indebtedness for bank notes issued	V.26	**155,466**	145,010
Precious metals		**206,210**	181,203
Derivative financial assets	V.16	**93,335**	124,126
Loans and advances to customers, net	V.17	**12,743,425**	11,515,764
Financial investments	V.18	**5,514,062**	5,054,551
— financial assets at fair value through profit or loss		**518,250**	370,491
— financial assets at fair value through other comprehensive income		**2,218,129**	1,879,759
— financial assets at amortised cost		**2,777,683**	2,804,301
Investments in associates and joint ventures	V.19	**23,210**	23,369
Property and equipment	V.20	**244,540**	227,394
Investment properties	V.21	**23,108**	22,086
Deferred income tax assets	V.35	**44,029**	38,204
Other assets	V.22	**179,124**	122,226
Total assets		**22,769,744**	21,267,275

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

Consolidated Statement of Financial Position (Continued)

As at 31 December 2019 (Amount in millions of Renminbi, unless otherwise stated)

	Note	As at 31 December	
		2019	2018
LIABILITIES			
Due to banks and other financial institutions	V.24	**1,668,046**	1,731,209
Due to central banks	V.25	**846,277**	907,521
Bank notes in circulation	V.26	**155,609**	145,187
Placements from banks and other financial institutions	V.27	**639,675**	612,267
Financial liabilities held for trading	V.28	**19,475**	14,327
Derivative financial liabilities	V.16	**90,060**	99,254
Due to customers	V.29	**15,817,548**	14,883,596
Bonds issued	V.30	**1,096,087**	782,127
Other borrowings	V.31	**28,011**	32,761
Current tax liabilities	V.32	**59,102**	27,894
Retirement benefit obligations	V.33	**2,533**	2,825
Deferred income tax liabilities	V.35	**5,452**	4,548
Other liabilities	V.36	**365,173**	298,362
Total liabilities		**20,793,048**	19,541,878
EQUITY			
Capital and reserves attributable to equity holders of the Bank			
Share capital	V.37.1	**294,388**	294,388
Other equity instruments	V.37.4	**199,893**	99,714
Capital reserve	V.37.2	**136,012**	142,135
Treasury shares	V.37.3	**(7)**	(68)
Other comprehensive income	V.12	**19,613**	1,417
Statutory reserves	V.38.1	**174,762**	157,464
General and regulatory reserves	V.38.2	**250,100**	231,525
Undistributed profits	V.38	**776,940**	686,405
		1,851,701	1,612,980
Non-controlling interests	V.39	**124,995**	112,417
Total equity		**1,976,696**	1,725,397
Total equity and liabilities		**22,769,744**	21,267,275

Approved and authorised for issue by the Board of Directors on 27 March 2020.

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

LIU Liange
Director

WANG Jiang
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019 (Amount in millions of Renminbi, unless otherwise stated)

		Attributable to equity holders of the Bank									
	Note	Share capital	Other equity instruments	Capital reserve	Other comprehensive income	Statutory reserves	General and regulatory reserves	Undistributed profits	Treasury shares	Non-controlling interests	Total
As at 1 January 2019		294,388	99,714	142,135	1,417	157,464	231,525	686,405	(68)	112,417	1,725,397
Total comprehensive income	V.12	–	–	–	18,196	–	–	187,405	–	18,065	223,666
Appropriation to statutory reserves	V.38.1	–	–	–	–	17,298	–	(17,298)	–	–	–
Appropriation to general and regulatory reserves	V.38.2	–	–	–	–	–	18,575	(18,575)	–	–	–
Dividends	V.38.3	–	–	–	–	–	–	(60,993)	–	(6,794)	(67,787)
Net change in treasury shares	V.37.3	–	–	–	–	–	–	–	61	–	61
Capital contribution by non-controlling shareholders		–	–	(22)	–	–	–	–	–	1,380	1,358
Capital contribution and reduction by other equity instruments holders	V.37.4	–	100,179	(6,205)	–	–	–	–	–	–	93,974
Other		–	–	104	–	–	–	(4)	–	(73)	27
As at 31 December 2019		294,388	199,893	136,012	19,613	174,762	250,100	776,940	(7)	124,995	1,976,696

		Attributable to equity holders of the Bank									
	Note	Share capital	Other equity instruments	Capital reserve	Other comprehensive income	Statutory reserves	General and regulatory reserves	Undistributed profits	Treasury shares	Non-controlling interests	Total
As at 1 January 2018		294,388	99,714	141,880	(28,454)	141,247	207,402	605,277	(102)	79,910	1,541,262
Total comprehensive income	V.12	–	–	–	29,860	–	–	180,086	–	15,621	225,567
Appropriation to statutory reserves	V.38.1	–	–	–	–	16,217	–	(16,217)	–	–	–
Appropriation to general and regulatory reserves	V.38.2	–	–	–	–	–	24,123	(24,123)	–	–	–
Dividends	V.38.3	–	–	–	–	–	–	(58,603)	–	(5,101)	(63,704)
Net change in treasury shares	V.37.3	–	–	–	–	–	–	–	34	–	34
Capital contribution by non-controlling shareholders		–	–	–	–	–	–	–	–	20,583	20,583
Other comprehensive income transferred to retained earnings	V.12	–	–	–	11	–	–	(11)	–	–	–
Other		–	–	255	–	–	–	(4)	–	1,404	1,655
As at 31 December 2018		294,388	99,714	142,135	1,417	157,464	231,525	686,405	(68)	112,417	1,725,397

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2019 (Amount in millions of Renminbi, unless otherwise stated)

	Note	Year ended 31 December 2019	2018
Cash flows from operating activities			
Profit before income tax		**250,645**	229,643
Adjustments:			
Impairment losses on assets		**102,153**	99,294
Depreciation of property and equipment and right-of-use assets		**21,136**	13,403
Amortisation of intangible assets and other assets		**4,219**	3,640
Net gains on disposal of property and equipment, intangible assets and other long-term assets		**(1,089)**	(820)
Net gains on disposal of investments in subsidiaries, associates and joint ventures		**(91)**	(148)
Share of results of associates and joint ventures		**(1,057)**	(2,110)
Interest income arising from financial investments		**(155,126)**	(144,326)
Dividends arising from investment securities		**(388)**	(264)
Net gains on financial investments		**(1,981)**	(2,817)
Interest expense arising from bonds issued		**30,942**	21,718
Accreted interest on impaired loans		**(1,497)**	(1,652)
Interest expense arising from lease liabilities		**876**	N/A
Net changes in operating assets and liabilities:			
Net decrease in balances with central banks		**64,656**	188,996
Net (increase)/decrease in due from and placements with and loans to banks and other financial institutions		**(144,184)**	107,814
Net increase in precious metals		**(25,019)**	(8,447)
Net increase in loans and advances to customers		**(1,322,755)**	(964,105)
Net increase in other assets		**(184,386)**	(173,682)
Net (decrease)/increase in due to banks and other financial institutions		**(60,531)**	298,113
Net decrease in due to central banks		**(59,590)**	(138,637)
Net increase in placements from banks and other financial institutions		**27,391**	110,368
Net increase in due to customers		**932,931**	1,048,755
Net (decrease)/increase in other borrowings		**(4,750)**	2,133
Net increase in other liabilities		**70,573**	4,004
Cash (outflow)/inflow from operating activities		**(456,922)**	690,873
Income tax paid		**(27,344)**	(28,515)
Net cash (outflow)/inflow from operating activities		**(484,266)**	662,358

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

	Note	Year ended 31 December 2019	2018
Cash flows from investing activities			
Proceeds from disposal of property and equipment, intangible assets and other long-term assets		**10,554**	10,273
Proceeds from disposal of investments in subsidiaries, associates and joint ventures		**1,459**	5,300
Dividends received		**1,693**	499
Interest income received from financial investments		**153,950**	140,366
Proceeds from disposal/maturity of financial investments		**2,800,591**	2,425,239
Increase in investments in subsidiaries, associates and joint ventures		**(1,249)**	(3,246)
Purchase of property and equipment, intangible assets and other long-term assets		**(39,019)**	(42,149)
Purchase of financial investments		**(3,093,657)**	(2,722,573)
Other net cash flows from investing activities		**–**	3,798
Net cash outflow from investing activities		**(165,678)**	(182,493)
Cash flows from financing activities			
Proceeds from issuance of bonds		**985,472**	664,202
Proceeds from issuance of other equity instruments		**139,961**	–
Proceeds from non-controlling shareholders investment		**1,380**	20,583
Repayments of debts issued		**(684,069)**	(377,446)
Cash payments for interest on bonds issued		**(28,770)**	(14,332)
Repayments of other equity instruments issued		**(45,987)**	–
Dividend payments to equity holders of the Bank		**(60,993)**	(58,603)
Dividend and coupon payments to non-controlling shareholders		**(6,794)**	(5,101)
Other net cash flows from financing activities		**(7,089)**	34
Net cash inflow from financing activities		**293,111**	229,337
Effect of exchange rate changes on cash and cash equivalents		**14,125**	20,646
Net (decrease)/increase in cash and cash equivalents		**(342,708)**	729,848
Cash and cash equivalents at beginning of year		**1,688,600**	958,752
Cash and cash equivalents at end of year	V.42	**1,345,892**	1,688,600

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

I GENERAL INFORMATION AND PRINCIPAL ACTIVITIES

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

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

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

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

The parent company is Central Huijin Investment Limited ("Huijin"), a wholly owned subsidiary of China Investment Corporation ("CIC"), which owned 64.02% of the ordinary shares of the Bank as at 31 December 2019 (31 December 2018: 64.02%).

These consolidated financial statements have been approved by the Board of Directors on 27 March 2020.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

1 Basis of preparation

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

Financial assets at fair value through other comprehensive income, financial assets and financial liabilities at fair value through profit or loss (including derivative financial instruments) and investment properties are measured at their fair values in the consolidated financial statement. Other accounting items are measured at their historical costs. Impairment allowance is recognised and measured as relevant policy.

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

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

1 Basis of preparation (Continued)

1.1 Standards, amendments and interpretations effective and have been early adopted by the Group in 2019

On 1 January 2019, the Group adopted the following new standards, amendments and interpretations.

IFRS 16	*Leases*
IFRIC Interpretation 23	*Uncertainty over Income Tax Treatments*
IAS 19 Amendments	*Plan amendment, Curtailment or Settlement*
IAS 28 Amendments	*Long-term Interests in Associates and Joint Ventures*
Annual Improvements to IFRSs 2015–2017 Cycle (issued in December 2017)	

In January 2016, the IASB issued IFRS 16 *Leases*, which replaced IAS 17 and IFRIC 4. Under IFRS 16, the classifications of finance lease and operating lease for lessees are removed, and lessees recognise right-of-use assets and lease liabilities for all leases (except short-term leases and leases of low-value assets elected to be accounted for using a practical expedient) and recognise depreciation and interest expense respectively. The Group has adopted IFRS 16 since 1 January 2019 (refer to the 2018 annual report for the accounting policies related to leases of the Group in 2018) and applied the modified retrospective approach without restating comparative figures. The Group has not reassessed the existing contracts before 1 January 2019 (date of initial application) and has used practical expedients. As a lessee, the Group has elected to exercise the recognition exemption not to recognise the right-of-use assets and lease liabilities for leases of which the underlying assets are of low value or for which the contract would end within 12 months from the date of initial application, and has recognised the profit or loss on a straight-line basis over the lease term. Therefore, the financial information for the year ended 31 December 2019 related to leasing presented on the financial statements is not comparable with the comparative financial information presented in the 2018 financial statements in accordance with the former lease standards.

(Amount in millions of Renminbi, unless otherwise stated)

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

1 Basis of preparation (Continued)

1.1 Standards, amendments and interpretations effective and have been early adopted by the Group in 2019 (Continued)

For the outstanding minimum lease payment for operating leases disclosed in the financial statements of 2018, the Group used its incremental borrowing interest rate as at 1 January 2019 to discount the lease payment, and the reconciliation to the opening balance for the lease liabilities in the statement of financial position as at 1 January 2019 is as follows:

	Amount
Minimum lease payment for operating leases as at 31 December 2018	28,093
Less: minimum lease payment with recognition exemption — short-term leases	**(938)**
Less: minimum lease payment with recognition exemption — leases of low-value assets	**(53)**
Less: the impact of lease payment discounted at incremental borrowing interest rate as at 1 January 2019	**(6,564)**
Add: other adjustments	**544**
Lease liabilities as at 1 January 2019	**21,082**
Right-of-use assets as at 1 January 2019	**22,563**

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

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

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

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

1 Basis of preparation (Continued)

1.1 Standards, amendments and interpretations effective and have been early adopted by the Group in 2019 (Continued)

Annual Improvements to IFRSs 2015–2017 Cycle was issued in December 2017. Those amendments affect IFRS 3 *Business Combinations*, IFRS 11 *Joint Arrangements*, IAS 12 *Income Taxes* and IAS 23 *Borrowing Costs*.

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

1.2 Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2019

		Effective for annual periods beginning on or after
IFRS 3 Amendments	*Definition of a Business*	1 January 2020
IAS 1 and IAS 8 Amendments	*Definition of Material*	1 January 2020
IFRS 9, IAS 39 and IFRS 7 Amendments	*Interest Rate Benchmark Reform*	1 January 2020
IFRS 17	*Insurance Contracts*	1 January 2021
IFRS 10 and IAS 28 Amendments	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	Effective date has been deferred indefinitely

IFRS 3 Amendments clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

1 Basis of preparation (Continued)

1.2 Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2019 (Continued)

Amendments to IAS 1 and IAS 8 provide a new definition of materiality. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions made by the primary users of general purpose financial statements based on those financial statements. The amendments clarify that materiality depends on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

The amendments to IFRS 9, IAS 39 and IFRS 7 modify some specific hedge accounting requirements. During the period of uncertainty arising from phasing-out of interest-rate benchmarks with an alternative nearly risk-free interest rate ("RFR"), the entities that apply these hedge accounting requirements can assume that the interest-rate benchmarks on which the hedged cash flows and cash flows of the hedging instrument are based are not altered as a result of interest-rate benchmark reform. The amendments must be applied retrospectively.

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

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

The Group is considering the impact of IFRS 17 on the consolidated financial statements. Except for IFRS 17, the adoption of the above standards, amendments and interpretations will have no material impact on the financial statements.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

2 Consolidation

2.1 Subsidiaries

Subsidiaries are all entities (including corporates, divided parts of associates and joint ventures, and structured entities controlled by corporates) over which the Group has control. That is the Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The existence and effect of potential voting rights that are currently exercisable or convertible and rights arising from other contractual arrangements are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. If the changes of the relevant facts and circumstances resulting in the definition of control involved in the changes of relevant elements, the Group will re-evaluate whether subsidiaries are controlled.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition by acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the identifiable net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. If there is any indication that goodwill is impaired, recoverable amount is estimated and the difference between carrying amount and recoverable amount is recognised as an impairment charge. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

In the Bank's statement of financial position, investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments, but does not include acquisition-related costs, which are expensed as incurred. The dividends or profits declared to distribute by the invested entity shall be recognised by the Bank as the current investment income of subsidiaries. The Group assesses at each financial reporting date whether there is objective evidence that an investment in subsidiaries is impaired. An impairment loss is recognised for the amount by which the investment in subsidiaries' carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the investment in subsidiaries' fair value less costs to sell and value in use.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

2 Consolidation (Continued)

2.2 Associates and joint ventures

Associates are all entities over which the Group has significant influence but no control or joint control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Joint ventures exist where the Group has a contractual arrangement with one or more parties to undertake economic activities which are subject to joint control.

Investments in associates and joint ventures are initially recognised at cost and are accounted for using the equity method of accounting. The Group's "Investment in associates and joint ventures" includes goodwill.

Unrealised gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interests in the associates and joint ventures; unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of associates and joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Group assesses at each financial reporting date whether there is objective evidence that investments in associates and joint ventures are impaired. Impairment losses are recognised for the amounts by which the investments in associates and joint ventures' carrying amounts exceed their recoverable amounts. The recoverable amounts are the higher of investments in associates and joint ventures' fair value less costs to sell and value in use.

2.3 Transactions with non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is re-measured to its fair value, with the change in carrying amount recognised in the income statement. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income are reclassified to the income statement.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

3 Foreign currency translation

3.1 Functional and presentation currency

The functional currency of the operations in the Chinese mainland is the Renminbi ("RMB"). Items included in the financial statements of each of the Group's operations in Hong Kong, Macao, Taiwan and other countries and regions are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The presentation currency of the Group is RMB.

3.2 Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions, or the exchange rates that approximate the exchange rates prevailing at the dates of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in the income statement.

Monetary assets and liabilities denominated in foreign currencies at the financial reporting date are translated at the foreign exchange rates ruling at that date. Changes in the fair value of monetary securities denominated in foreign currency classified as financial assets at fair value through other comprehensive income are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in the income statement, and other changes in the carrying amount are recognised in other comprehensive income. Translation differences on all other monetary assets and liabilities are recognised in the income statement.

Non-monetary assets and liabilities that are measured at historical cost in foreign currencies are translated using the foreign exchange rates at the date of the transaction. Non-monetary assets and liabilities that are measured at fair value in foreign currencies are translated using the foreign exchange rates at the date the fair value is determined. Translation differences on non-monetary financial assets classified as financial assets at fair value through other comprehensive income are recognised in other comprehensive income. Translation differences on non-monetary financial assets and liabilities held at fair value through profit or loss are recognised as "Net trading gains" in the income statement.

The results and financial positions of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

- income and expenses for each income statement are translated at exchange rates at the date of the transactions, or a rate that approximates the exchange rates of the date of the transaction; and

- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of deposits taken and other currency instruments designated as hedges of such investments are taken to other comprehensive income. When a foreign entity is disposed, these exchange differences are recognised in the income statement. The effect of exchange rate changes on cash and cash equivalents is presented individually in the statement of cash flows.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments

4.1 Initial recognition and measurement

The Group recognises a financial asset or financial liability in its statement of financial position when the Group becomes a party to the contractual provisions of the instrument, which is the trade date.

At initial recognition, the Group measures a financial asset or financial liability at its fair value. For a financial asset or financial liability at fair value through profit or loss, transaction costs are directly recognised in profit or loss. For other financial asset or liability, transaction costs are recognised in the initial measurement.

The fair value of a financial instrument at initial recognition is normally the transaction price. If the Group determines that the fair value at initial recognition differs from the transaction price, and if that fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets, the Group recognises the difference between the fair value at initial recognition and the transaction price as a gain or loss.

4.2 Classification and Subsequent measurement

4.2.1 Financial assets

The Group classifies financial assets as subsequently measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss on the basis of both the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

Business model

The Group's business model refers to how the Group manages its financial assets in order to generate cash flows. For example, financial assets are held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. If above two situations are not applicable, the business model of the financial assets is "other". The Group's assessment of the business model is performed on a financial asset portfolio basis, and determined on the basis of scenarios which are reasonably expected to occur, taking into account: how cash flows were realised in the past, how the performance are evaluated and reported to the entity's key management personnel; the risks that affect the performance and the way in which those risks are assessed and managed; and how managers of the business are compensated, etc.

The contractual cash flow characteristics

The assessment of contractual cash flow characteristics is to determine whether the asset's contractual cash flows are solely payments of principal and interest on the principal amount outstanding. Principal is the fair value of the financial asset at initial recognition. However, the principal amount may change over the life of the financial asset (for example, if there are repayments of principal). Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.2 Classification and Subsequent measurement (Continued)

4.2.1 Financial assets (Continued)

(1) Financial assets at amortised cost

The Group classifies financial assets as subsequently measured at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order 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.

Such financial assets that the Group holds are subsequently measured at amortised cost. That is, the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and adjusted for any loss allowance.

(2) Financial assets at fair value through other comprehensive income

The Group classifies financial assets as subsequently measured at fair value through other comprehensive income if both of the following conditions are met:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets 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.

Such financial assets that the Group holds are subsequently measured at fair value. A gain or loss on a financial asset measured at fair value through other comprehensive income shall be recognised in "Other comprehensive income", except for interests calculated using effective interest method, impairment gains or losses and foreign exchange gains and losses. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss. The impairment allowances for such financial assets are recognised in other comprehensive income, impairment gains or losses are recognised in profit or loss, and not reduce the carrying amount of such financial assets in the statement of financial position.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.2 Classification and Subsequent measurement (Continued)

4.2.1 Financial assets (Continued)

(2) Financial assets at fair value through other comprehensive income (Continued)

Investments in equity instruments

The Group may, at initial recognition, irrevocably designate an investment in equity instrument, which is not held for trading, as at fair value through other comprehensive income when it meets the definition of an equity instrument under IAS 32 *Financial Instruments: Presentation*. When the equity instrument is derecognised, the cumulative gain or loss previously recognised in other comprehensive income shall be reclassified from other comprehensive income to undistributed profits under equity. Dividends, which the Group is entitled to collect, on equity investments in such measurement category are recognised in profit or loss. No impairment gains or losses are recognised for such equity instruments.

(3) Financial assets at fair value through profit or loss

A financial asset is measured at fair value through profit or loss unless it is measured at amortised cost or at fair value through other comprehensive income, which includes financial assets held for trading, financial assets designated as at fair value through profit or loss and other financial assets mandatorily measured at fair value through profit or loss in accordance with IFRS 9.

Such financial assets that the Group holds are subsequently measured at fair value. A gain or loss on such financial asset is recognised in profit or loss unless it is part of a hedging relationship. Dividends, which the Group is entitled to collect, on equity investments in such measurement category are recognised in profit or loss.

When, and only when, the Group changes the business model for managing financial assets, the Group shall reclassify all affected financial assets. Reclassification is applied prospectively from the first day of the first reporting period following the change in business model.

4.2.2 Financial liabilities

The Group classifies all financial liabilities as subsequently measured at amortised cost, except for:

- financial liabilities at fair value through profit or loss. Such liabilities, include financial liabilities held for trading and financial liabilities designated as at fair value through profit or loss.

- financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies.

- financial guarantee contracts and commitments to provide a loan at a below-market interest rate.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.2 Classification and Subsequent measurement (Continued)

4.2.2 Financial liabilities (Continued)

Financial liabilities at fair value through profit or loss held by the Group are subsequently measured at fair value. A gain or loss on a financial liability that is measured at fair value is recognised in profit or loss unless:

- it is part of a hedging relationship; or
- it is a financial liability designated as at fair value through profit or loss and the effects of changes in the Group's credit risk are presented in other comprehensive income. When such financial liability is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from other comprehensive income to undistributed profits under equity.

The Group does not reclassify any financial liabilities.

4.2.3 Financial assets and financial liabilities held for trading

A financial asset or financial liability is classified as held for trading if it:

- is acquired or incurred principally for the purpose of selling or repurchasing it in the near term; or
- on initial recognition is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
- is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

4.2.4 Financial assets and financial liabilities designated as at fair value through profit or loss

The Group may, at initial recognition, irrevocably designate a financial asset or financial liability as measured at fair value through profit or loss, because either:

- it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or
- a portfolio of financial liabilities or financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the portfolio is provided internally on that basis to the Group's key management personnel; or
- the financial liability contains one or more embedded derivatives, unless the embedded derivative(s) does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.3 Financial guarantee contracts and loan commitments

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies to secure customer loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised at fair value on the date the guarantee was given. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial measurement less amortisation calculated and the impairment allowance determined by the expected credit loss ("ECL") model, and any increase in the liability relating to guarantees is taken to the income statement.

Loan commitments are commitments provided by the Group to the customers to grant loans under the established contract terms during certain period. The impairment allowance for loan commitments is measured using the ECL model.

The impairment allowances for financial guarantees and loan commitments are presented in "Other liabilities — provision".

4.4 Determination of fair value

The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair values of quoted financial assets and financial liabilities in active markets are based on current bid prices and ask prices, as appropriate. If there is no active market, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis and option pricing models, and other valuation techniques commonly used by market participants.

The Group uses the valuation techniques commonly used by market participants to price financial instruments and techniques which have been demonstrated to provide reliable estimates of prices obtained in actual market transactions. The Group makes use of all factors that market participants would consider in setting a price, and incorporates these into its chosen valuation techniques and tests for validity using prices from any observable current market transactions in the same instruments.

4.5 Derecognition of financial instruments

Financial assets are derecognised when the rights to receive cash flows from the investments have expired, or when a financial asset is transferred, the Group has transferred substantially all risks and rewards of ownership, or when the Group neither transfers nor retains substantially all risks or rewards of ownership of the financial asset but has not retained control of the financial asset.

Financial liabilities are derecognised when they are extinguished — that is, when the obligation is discharged, cancelled or expires.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.6 Impairment measurement for losses on assets

At the financial reporting date, the Group assesses and recognises the relevant impairment allowances for financial assets measured at amortised cost, debt instruments measured at fair value through other comprehensive income, and loan commitments and financial guarantee contracts on the basis of expected credit losses.

Measurement of ECL

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

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

- Stage 1: The financial instruments without significant increases in credit risk since initial recognition are included in Stage 1 to calculate their impairment allowance at an amount equivalent to the ECL of the financial instruments for the next 12 months;

- Stage 2: Financial instruments that have had a significant increase in credit risk since initial recognition but have no objective evidence of impairment are included in Stage 2, with their impairment allowance measured at an amount equivalent to the ECL over the lifetime of the financial instruments;

- Stage 3: Financial assets with objective evidence of impairment at the financial reporting date are included in Stage 3, with their impairment allowance measured at an amount equivalent to the ECL over the lifetime of the financial instruments.

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

For purchased or originated credit-impaired financial assets, the Group only recognises the cumulative change in lifetime expected credit losses since initial recognition at the financial reporting date as impairment allowance. At each financial reporting date, the Group recognises in profit or loss the amount of the changes in lifetime expected credit losses as an impairment gain or loss.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.6 Impairment measurement for losses on assets (Continued)

Measurement of ECL (Continued)

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

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

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

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

- Criteria for determining significant increases in credit risk
- Definition of credit-impaired financial assets
- Parameters for measuring ECL
- Forward-looking information
- Modification of contractual cash flows

Criteria for determining significant increases in credit risk

The Group assesses whether or not the credit risk of the relevant financial instruments has increased significantly since the initial recognition at each financial reporting date. While determining whether the credit risk has significantly increased since initial recognition or not, the Group takes into account the reasonable and supportable information that is available without undue cost or effort, including qualitative and quantitative analysis based on the historical data of the Group, external credit risk rating, and forward-looking information. Based on an individual financial instrument or a group of financial instruments shared credit risk characteristics, the Group compares the risk of default of financial instruments at the financial reporting date with that at the date of initial recognition in order to figure out the changes of default risk in the expected lifetime of financial instruments.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.6 Impairment measurement for losses on assets (Continued)

Criteria for determining significant increases in credit risk (Continued)

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

Quantitative criteria

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

Qualitative criteria

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

Backstop criteria

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

Definition of credit-impaired financial assets

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

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
- It becoming probable that the borrower will enter into bankruptcy or other financial re-organisation;
- The disappearance of an active market for that financial asset because of financial difficulties;
- The purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses;
- The debtor is more than 90 days overdue for any of the principal, advances, interest or investments in corporate bonds of the Group.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.6 Impairment measurement for losses on assets (Continued)

Definition of credit-impaired financial assets (Continued)

A financial asset becoming credit-impaired may be caused by the combined effect of several events, but not a single discrete event. For credit-impaired financial assets, the Group mainly evaluate the future cash flow (including the recoverable value of the collateral held) in different circumstances on an individual basis. Expected credit losses are measured as the differences between the present value of estimated cash flows discounted at the original effective interest rate and the asset's gross carrying amount. Any adjustment is recognised in profit or loss as an impairment gain or loss.

Parameters of ECL measurement

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

Relative definitions are listed as follows:

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

- LGD refers to the Group's expectation of the extent of the loss resulting from the default exposure. Depending on the type of counterparty, the method and priority of the recourse, and the type of collaterals, the LGD varies;

- EAD is the amount that the Group should be reimbursed at the time of the default in the next 12 months or throughout the entire remaining lifetime.

Forward-looking information

The assessment of a significant increase in credit risk and the calculation of ECL both involve forward-looking information. Based on the analysis of historical data, the Group identifies the key macroeconomic indicators that affect the credit risk and ECL of various business types, such as GDP, PPI, CPI, Investment in fixed assets, Home price index, Aggregate financing to the real economy.

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

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.6 Impairment measurement for losses on assets (Continued)

Forward-looking information (Continued)

In addition to a base economic scenario, the Group conducts statistical analysis with experts' judgement to determine other possible scenarios and their weights. The Group measures the weighted average ECL of 12 months (Stage 1) or life time (Stage 2 and Stage 3). The weighted average credit loss above is calculated by multiplying the ECL for each scenario by the weight of the corresponding scenario.

Modification of contractual cash flows

A modification or re-negotiation of a contract between the Group and a counterparty may result in a change to the contractual cash flows without resulting in the derecognition of the financial assets. Such restructuring activities include extended payment term arrangements, repayment schedule modifications and changes to the interest settlement method. The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in derecognition of the original asset. The gross carrying amount of the financial asset is recalculated and the related gain or loss is recognised in profit and loss. The gross carrying amount of the financial asset is determined based on the present value of the renegotiated or modified contractual cash flows discounted at the financial asset's original effective interest rate.

The Group monitors the ongoing performance of assets with modified contractual cash flows. Based on the Group's judgment, the Group determined that the credit risk of these assets had significantly improved after modification of contractual cash flows. Accordingly, these assets were transferred from either Stage 3 or Stage 2 to Stage 1, and the related impairment allowance was measured at an amount equal to the 12-month ECL instead of the lifetime ECL.

4.7 Derivative financial instruments and hedge accounting

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, or valuation techniques, including discounted cash flow analysis and option pricing models, as appropriate. Credit risk valuation adjustments are applied to the Group's over-the-counter derivatives to reflect the credit risk of the counterparties and the Group, respectively. They are dependent on the expected future values of exposures for each counterparty and default probabilities, etc. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated and qualifies as a hedging instrument, and if so, the nature of the item being hedged. For derivatives not designated or qualified as hedging instruments, including those intended to provide effective economic hedges of specific interest rate and foreign exchange risks, but do not qualify for hedge accounting, changes in the fair value of these derivatives are recognised in "Net trading gains" in the income statement.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.7 Derivative financial instruments and hedge accounting (Continued)

The Group documents, at inception, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking hedge transactions. When designating a hedging relationship and on an ongoing basis, the Group assesses the hedge effectiveness, that is the extent to which changes in the fair value or cash flows of the hedging instrument offsets changes in fair values or cash flows of the hedged item.

The hedging relationship should meet all of the following hedge effectiveness requirements:

- There is an economic relationship between the hedged item and the hedging instrument. That means the hedging instrument and hedged item have values that generally move in the opposite direction because of the same risk, which is the hedged risk.

- 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 entity actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of the hedged item. However, that designation shall not reflect an imbalance between the weightings of the hedged item and the hedging instrument that would create hedge ineffectiveness that could result in an accounting outcome that would be inconsistent with the purpose of hedge accounting.

Possible sources of ineffectiveness are as follows:

- Increase or decrease in the amounts of hedged items or hedging instruments;

- Significant changes in counterparties' credit risk.

The Group discontinues hedge accounting prospectively when the hedging instrument expires or is sold, terminated or exercised (the replacement or rollover of a hedging instrument into another hedging instrument does not constitute an expiration or termination), or the hedging relationship ceases to meet the updated risk management objective, or to meet other qualifying criteria for hedging accounting.

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 so that it meets the qualifying criteria again.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.7 Derivative financial instruments and hedge accounting (Continued)

(1) Fair value hedge

Fair value hedge is a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or a component of any such item, that is attributable to a particular risk and could affect profit or loss.

The changes in fair value of hedging instruments that are designated and qualify as fair value hedges are recorded in the income statement, together with the changes in fair value of the hedged item attributable to the hedged risk. The net result is included as ineffectiveness in the income statement.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to the income statement over the period to maturity.

(2) Cash flow hedge

Cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with all, or a component of, a recognised asset or liability (such as all or some future interest payments on variable-rate debt) or a highly probable forecast transaction, and could affect profit or loss.

The effective portion of changes in the fair value of hedging instruments that are designated and qualify as cash flow hedges is recognised in "Other comprehensive income". The ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are reclassified to the income statement in the same periods when the hedged future cash flows affect profit or loss.

When the Group discontinues hedge accounting for a cash flow hedge, if the hedged future cash flows are still expected to occur, that amount accumulated in the cash flow hedge reserve shall remain in equity. If the hedged future cash flows are no longer expected to occur, that amount shall be immediately reclassified from the cash flow hedge reserve to profit or loss.

(3) Net investment hedge

Net investment hedge is a hedge of a net investment in a foreign operation.

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised directly in other comprehensive income; the gain or loss relating to the ineffective portion is recognised immediately in the income statement. Gains and losses accumulated in equity are reclassified to the income statement when the foreign operation is disposed of as part of the gain or loss on the disposal.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.7 Derivative financial instruments and hedge accounting (Continued)

(3) Net investment hedge (Continued)

When the Group separates the forward element and the spot element of a forward contract and designates as the hedging instrument only the change in the value of the spot element, the changes in the value of the forward element of the forward contract shall be recognised in other comprehensive income to the extent that it relates to the hedged item. If the hedged items are transaction related, the amount accumulated in other comprehensive income shall be accounted for similarly to cash flow hedges. If the hedged items are time-period related, that amount is amortised on a systematic and rational basis over the period during which the hedged items could affect profit or loss, and the amortisation amount is reclassified from other comprehensive income to profit or loss as a reclassification adjustment.

4.8 Embedded derivatives

An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the hybrid (combined) instrument vary in a way similar to a stand-alone derivative.

If a hybrid contract contains a host that is a financial asset, the Group applies the requirements of classification and measurement to the entire hybrid contract. If a hybrid contract contains a host that is not a financial asset, the Group separates the embedded derivative from the host contract and accounts for it as a derivative, if, and only if:

- the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- The hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in the income statement.

These embedded derivatives separated from the host contract are measured at fair value with changes in fair value recognised in the income statement.

If it is unable to measure the embedded derivative separately either at acquisition or at the subsequent financial reporting date, the Group will designate the entire hybrid instrument as at fair value through profit or loss.

4.9 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a current legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

5 Precious metals and precious metals swaps

Precious metals comprise gold, silver and other precious metals. The Group retains all risks and rewards of ownership related to precious metals deposited with the Group as precious metal deposits, including the right to freely pledge or transfer, and it records the precious metals received as an asset. A liability to return the amount of precious metals deposited is also recognised. Precious metals that are not related to the Group's precious metal market making and trading activities are initially measured at acquisition cost and subsequently measured at the lower of cost and net realisable value. Precious metals that are related to the Group's market making and trading activities are initially recognised at fair value and subsequent changes in fair value included in "Net trading gains" are recognised in the income statement.

Consistent with the substance of the transaction, if the precious metals swaps are for financing purposes, they are accounted for as precious metals subject to collateral agreements. Precious metals collateralised are not derecognised and the related counterparty liability is recorded in "Placements from banks and other financial institutions". If precious metals swaps are for trading purposes, they are accounted for as derivative transactions.

6 Repurchase agreements, agreements to re-sell and securities lending

Securities and bills sold subject to repurchase agreements ("Repos") continue to be recognised, and are recorded as "Financial investments". The corresponding obligation is included in "Placements from banks and other financial institutions" and "Due to central banks". Securities and bills purchased under agreements to re-sell ("Reverse repos") are not recognised. The receivables are recorded as "Placements with and loans to banks and other financial institutions" or "Balances with central banks", as appropriate.

The difference between purchase and sale price is recognised as "Interest expense" or "Interest income" in the income statement over the life of the agreements using the effective interest method.

Securities lending transactions are generally secured, with collateral taking the form of securities or cash. Securities lent to counterparties by the Group are recorded in the consolidated financial statements. Securities borrowed from counterparties by the Group are not recognised in the consolidated financial statements of the Group. Cash collateral received or advanced is recognised as a liability or an asset in the consolidated financial statements.

7 Property and equipment

The Group's property and equipment mainly comprise buildings, equipment and motor vehicles, aircraft and construction in progress. When the costs attributable to the land use rights cannot be reliably measured and separated from that of the building at inception, the costs are included in the cost of buildings and recorded in "Property and equipment".

The assets purchased or constructed are initially measured at acquisition cost or deemed cost, as appropriate. Such initial cost includes expenditure that is directly attributable to the acquisition of the assets.

Subsequent costs are included in an asset's carrying amount, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

(Amount in millions of Renminbi, unless otherwise stated)

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

7 Property and equipment (Continued)

Depreciation is calculated on a straight-line method to write down the cost of such assets to their residual values over their estimated useful lives. The residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each financial reporting date.

Property and equipment are reviewed for impairment at each financial reporting date. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposals are determined by the difference between proceeds and carrying amount, after deduction of relevant taxes and expenses. These are included in the income statement.

7.1 Buildings, equipment and motor vehicles

Buildings comprise primarily branch and office premises. The estimated useful lives, estimated residual value rate and depreciation rate of buildings, equipment and motor vehicles are as follows:

Type of assets	Estimated useful lives	Estimated residual value rate	Annual depreciation rate
Buildings	15–50 years	3%	1.9%–6.5%
Equipment	3–15 years	3%	6.4%–32.4%
Motor vehicles	4–6 years	3%	16.1%–24.3%

7.2 Aircraft

Aircraft are used in the Group's aircraft operating leasing business.

Aircraft are depreciated using the straight-line method over the expected useful life of 25 years, less the years in service at the time of purchase to an estimated residual value rate varying from 0% to 15%.

7.3 Construction in progress

Construction in progress consists of assets under construction or being installed and is stated at cost. Cost includes equipment cost, cost of construction, installation and other direct costs. Items classified as construction in progress are transferred to property and equipment when such assets are ready for their intended use and the depreciation charge commences after such assets are transferred to property and equipment.

8 Leases

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of one or more identified assets for a period of time in exchange for consideration.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

8 Leases (Continued)

8.1 As Lessee

The lease term is the non-cancellable period of a lease for which the Group has the right to use an underlying asset. The Group considers a lease that, at the commencement date of the lease, has a lease term of 12 months or less, and does not contain any option to purchase the underlying asset as a short-term lease; and a lease for which the value of the individual underlying asset is relatively low when it is new as a lease of low-value asset. The Group chooses not to recognise the right-of-use assets and lease liabilities for short-term leases and leases of low-value assets, and the rental expenses are recognised as "Operating expenses" in the income statement on a straight-line basis over each period of the lease term.

The Group uses the incremental borrowing rate as the discount rate to calculate the present value of lease payment. The economic circumstance and the observable interest rate set the foundation for each institution of the Group in determining the incremental borrowing rate. On this basis, the applicable incremental borrowing rate is calculated through the adjustment of the reference interest rate, which is determined according to the situation of the institution and the underlying asset, the lease term, the amount of lease liability and other specific conditions of the lease.

Right-of-use assets

The right-of-use assets of the Group mainly include buildings, vehicles and other right-of-use assets.

At the commencement date of the lease, the Group recognises a right-of-use asset. The cost of the right-of-use asset comprises:

(1) the amount of the initial measurement of the lease liability;

(2) any lease payments made at or before the commencement date of the lease less any lease incentives received;

(3) any initial direct costs incurred when the Group is a lessee; and

(4) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

The right-of-use assets are depreciated on a straight-line basis subsequently by the Group. If the Group is reasonably certain that the ownership of the underlying asset will be transferred to the Group at the end of the lease term, the Group depreciates the asset from the commencement date to the end of the useful life of the asset. Otherwise, the Group depreciates the asset from the commencement date to the earlier of the end of the useful life of the asset or the end of the lease term.

The Group remeasures the lease liabilities at the present value of the changed lease payments and adjusts the carrying amounts of the right-of-use assets accordingly. When the carrying amount of the right-of-use asset is reduced to zero, and there is a further reduction in the measurement of the lease liability, the Group recognises the remaining amount of the remeasurement in profit or loss.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

8 Leases (Continued)

8.1 As Lessee (Continued)

Lease liabilities

At the commencement date of the lease, the Group measures the lease liabilities at the present value of the lease payments that are not paid at that date, except for short-term leases and leases of low-value assets.

In calculating the present value of the lease payments, the Group uses the incremental borrowing rate of lessee as the discount rate. The Group calculates the interest expenses of lease liabilities in each period during the lease term using the constant periodic rate of interest, and recognises such interest expenses in profit or loss. Variable lease payments that are not included in the measurement of lease liabilities are recognised in profit or loss as incurred.

After the commencement date, the Group remeasures lease liabilities by discounting the revised lease payments if any of the following occur: (i) there is a change in the in-substance fixed payments; (ii) there is a change in the amounts expected to be payable under a residual value guarantee; (iii) there is a change in future lease payments resulting from a change in an index or a rate used to determine those payments; or (iv) there is a change in the assessments of options to purchase the underlying asset, extend or terminate the lease, or the circumstances of the actual exercise of these options.

Lease modification

Lease modification is a change in the scope of a lease, the consideration for a lease or lease term, that was not part of the original terms and conditions of the lease. For example, adding or terminating the right to use one or more underlying assets, or extending or shortening the contractual lease term.

The Group accounts for a lease modification as a separate lease if both:

(1) the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

(2) the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, at the effective date of the lease modification, the Group remeasures the lease term and the lease liability by discounting the revised lease payments using a revised discount rate.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

8 Leases (Continued)

8.2 As Lessor

At the inception date, a lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise, a lease is classified as an operating lease.

When the Group is a lessor under finance leases, the Group recognises the lease payments receivable and derecognises the assets under finance leases at the commencement date. In the initial measurement of the lease payments receivable, the Group recognises the net investment in the lease as the book value. The net investment in the lease is the present value of the sum of the unguaranteed residual value and the unreceived lease payments receivable at the commencement date, which is discounted by the interest rate implicit in the lease. The Group calculates and recognises the interest income in each period during the lease term using the constant periodic rate of interest, and recognises such interest income in profit or loss. Variable lease payments that are not measured as part of the net investment in the lease are recognised in profit or loss as incurred.

When the Group is a lessor under operating leases, the Group still reflects the underlying assets as the Group's assets. The rental income is recognised as "Other operating income" in the income statement on a straight-line basis over each period of the lease term. Variable lease payments that are not measured as part of the receivable in the lease are recognised in profit or loss as incurred.

9 Investment properties

Investment properties, principally consisting of office buildings, are held to generate rental income or earn capital gains or both and are not occupied by the Group. Investment properties are carried at fair value and changes in fair value are recorded in the income statement, representing the open market value and other related information determined periodically by independent appraisers.

10 Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance owned and controlled by the Group, including computer software and other intangible assets.

Computer software and other intangible assets are stated at acquisition cost less accumulated amortisation and impairment. These costs are amortised on a straight-line basis over their estimated useful lives with the amortisation recognised in the income statement.

The value of intangible assets is reviewed for impairment at each financial reporting date. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

The recoverable amount of an intangible asset is the higher of the asset's fair value less costs to sell and value in use.

11 Repossessed assets

Repossessed assets are initially recognised at fair value of assets not retained plus related costs when they are obtained as the compensation for the loans' principal and interest. When there are indicators that the recoverable amount is lower than carrying amount, the carrying amount is written down immediately to its recoverable amount.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

12 Employee benefits

12.1 Defined contribution plans and Defined benefit plans

In accordance with the policies of relevant state and local governments, employees in Chinese mainland participate in various defined contribution retirement schemes administered by local Labour and Social Security Bureaus. Operations in Chinese mainland contribute to pension and insurance schemes administered by the local pension and insurance agencies using applicable contribution rates stipulated in the relevant local regulations. Upon retirement, the local Labour and Social Security Bureaus are responsible for the payment of the basic retirement benefits to the retired employees. In addition to these basic staff pension schemes, employees in Chinese mainland who retire after 1 January 2004 can also voluntarily participate in a defined contribution plan established by the Bank ("the Annuity Plan"). The Bank contributes to the Annuity Plan based on certain percentages of the employees' gross salaries.

All eligible employees in operations in Hong Kong, Macao, Taiwan and other countries and regions participate in local defined contribution schemes or defined benefit plans.

Contributions made by the Group to the retirement schemes described above are recognised as "Operating expenses" in the income statement as incurred. Forfeited contributions by those employees who leave the schemes prior to the full vesting of their contributions are used to reduce the existing level of contributions or retained in the retirement schemes in accordance with the requirements of the respective defined contribution plans.

The obligations related to the defined benefit plans are calculated by independent actuaries using the projected unit credit method at each financial reporting date. The actuarial gains or losses are recognised in "Other comprehensive income" immediately when they occur, the gains or losses arising from amendments to pension plans are charged or credited to the income statement immediately as "Operating expenses" when they occur.

12.2 Retirement benefit obligations

The Group pays supplemental retirement benefits to employees in Chinese mainland who retired prior to 31 December 2003 and early retirement benefits to those employees who accepted an early retirement arrangement.

Supplemental retirement benefits include supplemental pension payments and medical expense coverage.

Early retirement benefits have been paid to those employees who accept voluntary retirement before the normal retirement date, as approved by management. The related benefit payments are made from the date of early retirement to the normal retirement date.

The liability related to the above supplemental retirement benefit obligations and early retirement obligations existing at each financial reporting date is calculated by independent actuaries using the projected unit credit method and is recorded as a liability under "Retirement benefit obligations" in the statement of financial position. The present value of the liability is determined through discounting the estimated future cash outflows using interest rates of RMB treasury bonds which have terms to maturity approximating the terms of the related liability. The actuarial gains or losses of supplemental retirement benefit are recognised in "Other comprehensive income" immediately when they occur. The actuarial gains or losses of early retirement benefit obligations and the gains or losses arising from amendments to retirement benefit obligations are charged or credited to the income statement immediately as "Operating expenses" when they occur.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

12 Employee benefits (Continued)

12.3 Housing funds

Pursuant to local government regulations, all employees in Chinese mainland participate in various local housing funds administered by local governments. Operations in Chinese mainland contribute on a monthly basis to these funds based on certain percentages of the salaries of the employees. These payments are recognised as "Operating expenses" in the income statement as incurred.

12.4 Share-based compensation

(1) *Equity-settled share-based compensation schemes*

The fair value of the employee services received in exchange for the grant of the options under these schemes is recognised as an expense over the vesting period, with a corresponding increase in equity. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions. The fair value of the equity instruments is measured at the grant date and is not subsequently re-measured. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each financial reporting date, the Group revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, as "Operating expenses" in the income statement over the remaining vesting period, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to "Share capital" (nominal value) and "Capital reserve" when the options are exercised.

(2) *Cash-settled share-based compensation schemes*

The related cost of services received from the employees and the liability to pay for such services are measured at fair value and recognised over the vesting period as the employees render services. Fair value is established at the grant date, re-measured at each financial reporting date with any changes in fair value recognised as "Operating expenses" in the income statement for the period and derecognised when the liability is settled.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the rights granted, excluding the impact of any non-market vesting conditions. Non-market conditions are included in the assumptions about the number of rights that are expected to vest. At each financial reporting date, the Group revises its estimates of the number of rights that are expected to vest. It recognises the impact of the revision to original estimates, if any, as "Operating expenses" in the income statement, with a corresponding adjustment to liability.

12.5 Bonus plans

The Group recognises a liability and an expense for bonuses, taking into consideration its business performance and profit attributable to the Bank's equity holders. The Group recognises a liability where contractually obliged or where there is a past practice that has created a constructive obligation.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

13 Provisions

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. The amount initially recognised as a provision should be the best estimate of the expenditure required to settle the present obligation.

14 Insurance contracts

14.1 Insurance contracts classification

The Group's insurance subsidiaries issue insurance contracts that transfer significant insurance risk. The Group performs a significant insurance risk test at the contract initial recognition date. Insurance risk is significant if, and only if, an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance. The Group issues non-life insurance contracts, which cover casualty and property insurance risk, and life insurance contracts, which insure events associated with human life (for example death, or survival) over a long duration.

The Group does not separately measure embedded derivatives that itself meet the definition of an insurance contract or options to surrender insurance contracts for a fixed amount (or an amount based on a fixed amount and an interest rate).

14.2 Insurance contracts recognition and measurement

(1) Non-life insurance contracts

Premiums on non-life insurance contracts are recognised as revenue (earned premiums) proportionally over the period of coverage. The portion of premium received on in-force contracts that relates to unexpired risks at the financial reporting date is reported as the unearned premium liability in "Other liabilities". Claims and loss adjustment expenses are charged to the income statement as "Operating expenses" when incurred based on the estimated liability for compensation owed to contract holders or third parties damaged by the contract holders. They include direct and indirect claims settlement costs and arise from events that have occurred up to the financial reporting date even if they have not yet been reported to the Group.

(2) Life insurance contracts

Premiums on life insurance contracts are recognised as revenue when they become payable by the contract holders. Benefits and claims are recorded as an expense when they are incurred. A liability for contractual benefits that are expected to be incurred in the future is recorded when premiums are recognised. For certain long-term insurance contracts (investment-linked long-term insurance contracts) with embedded derivatives linking payments on the contract to units of an investment fund set up by the Group with the consideration received from the contract holders, the liability is adjusted for all changes in the fair value of the underlying assets, and includes a liability for contractual benefits that are expected to be incurred in the future which is recorded when the premiums are recognised.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

14 Insurance contracts (Continued)

14.3 Liability adequacy test

At each financial reporting date, liability adequacy tests are performed to ensure the adequacy of the insurance contract liabilities (including unearned premium in the case of non-life insurance contracts). In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to the income statement and reported as "Operating expenses", with a provision established for losses arising from the liability adequacy test.

15 Treasury shares, preference shares and perpetual bonds

Where the Bank or other members of the Group purchase the Bank's ordinary shares, "Treasury shares" are recorded at the amount of consideration paid and deducted from total equity holders' equity until they are cancelled, sold or reissued. Where such shares are subsequently sold or reissued, any consideration received is included in capital and reserves attributable to equity holders of the Bank.

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

Perpetual bonds issued by the Group contain no contractual obligation to deliver cash or another financial asset; or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Group. And perpetual bonds issued includes no terms and arrangements that the bonds must or will alternatively be settled in the Group's own equity instruments. The Group classifies perpetual bonds issued as an equity instrument. Fees, commissions and other transaction costs of perpetual bonds issuance are deducted from equity. The interests on perpetual bonds are recognised as profit distribution at the time of declaration.

16 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

17 Fiduciary activities

The Group acts as a custodian, trustee or in other fiduciary capacities, that result in its holding or placing of assets on behalf of individuals, securities investment funds, social security funds, insurance companies, qualified foreign institutional investors, annuity schemes and other customers. These assets are not included in the statement of financial position of the Group, as they are not assets of the Group.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

17 Fiduciary activities (Continued)

The Group also administers entrusted loans on behalf of third-party lenders. In this regard, the Group grants loans to borrowers, as an intermediary, at the direction of third-party lenders, who fund these loans. The Group has been contracted by these third-party lenders to manage the administration and collection of these loans on their behalf. The third-party lenders determine both the underwriting criteria for and all terms of the entrusted loans, including their purposes, amounts, interest rates, and repayment schedule. The Group charges a commission related to its activities in connection with the entrusted loans, but the risk of loss is borne by the third-party lenders. Entrusted loans are not recognised in the statement of financial position of the Group.

18 Interest income and expense

The "Interest income" and "Interest expense" in the Group's income statement are the interest income and expense calculated by using the effective interest method on financial assets at amortised cost, financial assets at fair value through other comprehensive income and financial liabilities at amortised cost, etc.

The effective interest method is used in the calculation of the amortised cost of a financial asset or a financial liability and in the allocation and recognition of the interest income or interest expense in profit or loss over the relevant period. The effective interest rate is that exactly discounts estimated future cash flows through the expected life of a financial asset or financial liability to the gross carrying amount of a financial asset or the amortised cost of a financial liability. When calculating the effective interest rate, the Group estimates the expected cash flows by considering all contractual terms of the financial instrument but does not consider expected credit losses. The calculation includes all amounts paid or received by the Group that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

For those purchased or originated credit-impaired financial assets, the Group calculates the interest income by applying the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition. The credit-adjusted effective interest rate is that exactly discounts the estimated future cash flows through the expected life of the financial asset to the amortised cost of a financial asset that is a purchased or originated credit-impaired financial asset.

For those financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets, the Group calculates the interest income by applying the effective interest rate to the amortised cost of the financial asset in subsequent reporting periods.

19 Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. For those services that are provided over a period of time, fee and commission income is accrued in accordance with the terms and conditions of the service agreement. For other services, fee and commission income is recognised when the transactions are completed.

20 Income taxes

Income taxes comprise current income tax and deferred income tax. Tax is recognised in the income statement except to the extent that it relates to items directly recognised in Equity, in which cases, tax is also directly recognised in Equity.

20.1 Current income tax

Current income tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the financial reporting date, and any adjustment to tax payable in respect of previous years.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

20 Income taxes (Continued)

20.2 Deferred income tax

Deferred income tax is recognised using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the financial reporting date and are expected to apply when the related asset is realised, or the liability is settled.

The principal temporary differences arise from asset impairment allowances, revaluation of certain financial assets and financial liabilities including derivative contracts, revaluation of investment properties, depreciation of property and equipment, provisions for pension, retirement benefits and salary payables.

"Deferred income tax assets" are recognised to the extent that it is probable that future taxable profit will be available against which deductible temporary differences can be utilised except the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit/(tax loss).

For deductible temporary differences associated with investment in subsidiaries, associates and joint ventures, a deferred tax asset is recognised to the extent that, and only to the extent that, it is probable that the temporary difference will reverse in the foreseeable future; and taxable profit will be available against which the temporary difference can be utilised.

Deferred tax liabilities shall be recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of goodwill, or the initial recognition of an asset or liability in a transaction which is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit/(tax loss).

Deferred income tax liabilities on taxable temporary differences arising from investments in subsidiaries, associates and joint ventures are recognised, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future.

The tax effects of income tax losses available for carrying forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

21 Segment reporting

The Group reviews the internal reporting in order to assess performance and allocate resources. Segment information is presented on the same basis as the Group's management and internal reporting.

22 Comparative figures

Certain comparative figures have been adjusted to conform with changes in disclosures in current year.

III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Group makes estimates and judgements that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group has taken into consideration the impact of the economic environment on the industries and territories in which the Group operates when determining critical accounting estimates and judgements in applying accounting policies.

Areas susceptible to changes in critical estimates and judgements, which affect the carrying value of assets and liabilities, are set out below. It is possible that actual results may be materially different from the estimates and judgements referred below.

1 Impairment loss on loans and advances to customers

The models and assumptions used by the Group in assessing the expected credit losses on loans and advances to customers are highly dependent on management's judgement.

When determining whether the credit risk of a loan has significantly increased since initial recognition, the Group needs to consider internal and external historical information, current conditions and future economic forecasts. The criteria for a significant increase in credit risk will be used to determine whether impairment allowance for a loan should be measured as equal to lifetime expected credit losses, rather than 12 months expected credit losses.

The parameters used by the Group to measure the ECL model, including PD, LGD and EAD, each involve numerous judgements and assumptions. The Group made adjustments based on the results of the internal rating model of the New Basel Capital Accord and considered macroeconomic forecasts information to determine the debtor's PIT PD. When estimating the LGD, the Group also needs to make judgements by considering the type of counterparty, recourse arrangements, compensation seniority, the type and value of the collateral and historical loss data. For off-balance credit commitments and revolving credit facilities, judgements are also needed to determine the time period applicable for the EAD.

The Group applies expert judgements to predict macroeconomic indicators, analyses the correlations with modelled parameters such as PD, and makes forward-looking adjustments on parameters. At the same time, the Group also needs to estimate the probability of occurrence of multiple different macroeconomic scenarios and calculate probability-weighted expected credit losses.

The estimation of future cash flows is critical for a credit-impaired loan for which expected credit losses are measured on an individual basis. Factors affecting this estimate include, among other things, the granularity of financial information related to specific borrowers, the availability of meaningful information related to industry competitors and the relevance of sector trends to the future performance of individual borrowers and cash flows from the sale of collateral.

III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (Continued)

2 Fair value of derivatives and other financial instruments

The Group establishes fair value of financial instruments with reference to a quoted market price in an active market or, if there is no active market, using valuation techniques. These valuation techniques include the use of recent arm's length transactions, observable prices for similar instruments, discounted cash flow analysis using risk-adjusted interest rates, and commonly used market pricing models. Whenever possible these models use observable market inputs and data including, for example, interest rate yield curves, foreign currency rates and option volatilities. The results of using valuation techniques are calibrated against the industry practice and observable current market transactions in the same or similar instruments.

The Group assesses assumptions and estimates used in valuation techniques including review of valuation model assumptions and characteristics, changes to model assumptions, the quality of market data, whether markets are active or inactive, other fair value adjustments not specifically captured by models and consistency of application of techniques between reporting periods as part of its normal review and approval processes. Valuation techniques are validated and periodically reviewed and, where appropriate, have been updated to reflect market conditions at the financial reporting date.

With respect to the PRC government obligations related to large policy directed financing transactions, fair value is determined using the stated terms of the related instrument and with reference to terms determined by the PRC government in similar transactions engaged in or directed by the PRC government. In this regard, there are no other relevant market prices or yields reflecting arm's length transactions of a comparable size and tenor.

3 Provisions

The Group uses judgement to assess whether the Group has a present legal or constructive obligation as a result of past events at each financial reporting date, and judgement is used to determine if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and to determine a reliable estimate of the amount of the obligation and relevant disclosure in the consolidated financial statements.

4 Employee retirement benefit obligations

As described in Note II.12.2 and Note V.33, the Bank has established liabilities in connection with benefits payable to certain retired and early retired employees. These liabilities are calculated using actuarial assumptions such as discount rates, pension benefit inflation rates, medical benefit inflation rates, and other factors. While management believes that its assumptions are appropriate, differences in actual experience or changes in assumptions may affect other comprehensive income, expenses and employee retirement benefit obligations.

5 Taxes

The Group is subject to income, value-added and other taxes in numerous jurisdictions, principally in Chinese mainland and Hong Kong. There are certain transactions and activities for which the ultimate tax determination is uncertain during the ordinary course of business. The Group has made estimates for application of new tax legislation and items of uncertainty taking into account existing tax legislation and past practice, in particular, the treatment of supplementary PRC tax applied to results of overseas operations.

Where the final tax outcome of these matters is different from the amounts that were initially estimated, such differences will impact the current income tax, deferred income tax, and value-added tax in the period during which such a determination is made.

III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (Continued)

6 Impairment of non-financial assets

Non-financial assets are periodically reviewed for impairment and where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

When estimating the value in use of aircraft held by the subsidiary, the Group estimates expected future cash flows from the aircraft and uses a suitable discount rate to calculate present value. The Group obtains valuations of aircraft from independent appraisers for which the principal assumptions underlying aircraft value are based on current market transactions for similar aircraft in the same location and condition. The Group also uses the fair value of aircraft obtained from independent appraisers in its assessment of the recoverable amount of intangible assets and the goodwill arising from the purchase of the Group's aircraft leasing subsidiary.

7 Judgement in assessing control over structured entities

The Group is involved with structured entities in its normal business course, and the Group determines whether or not to consolidate those structured entities depending on whether the Group has control over them. When assessing control over structured entities, the Group takes consideration of power arising from rights it directly owns or indirectly owns through subsidiaries (including controlled structured entities), variable returns, and link between power and returns.

The variable returns the Group is exposed to from its involvement with structured entities include decision makers' remuneration (such as management fees and performance-related fees), as well as other benefits (such as investment income, remuneration and exposure to loss from providing credit or liquidity support, and variable returns from transactions with structured entities). When assessing whether it controls a structured entity, the Group not only considers applicable legal or regulatory requirements, and contractual agreements, but also other circumstances where the Group may have obligation to absorb any loss of the structured entity.

The Group reassesses whether it controls a structured entity if facts and circumstances indicate that there are changes to one or more of the relevant elements of control.

IV TAXATION

The principal income and other taxes to which the Group is subject are listed below:

Taxes	Tax basis	Statutory rates
Chinese mainland		
Corporate income tax	Taxable income	25%
Value-added tax	Taxable added value	6%
City construction and maintenance tax	Turnover tax paid	1%–7%
Education surcharges	Turnover tax paid	3%
Local education surcharges	Turnover tax paid	2%
Hong Kong		
Hong Kong profits tax	Assessable profits	16.5%

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 Net interest income

	Year ended 31 December	
	2019	2018
Interest income		
Loans and advances to customers	**517,565**	469,098
Financial investments[(1)]	**155,126**	144,326
Due from and placements with and loans to banks and other financial institutions and central banks	**69,516**	74,476
Subtotal	**742,207**	687,900
Interest expense		
Due to customers	**(269,324)**	(229,998)
Due to and placements from banks and other financial institutions	**(66,103)**	(75,707)
Bonds issued and other[(2)]	**(32,530)**	(22,489)
Subtotal	**(367,957)**	(328,194)
Net interest income	**374,250**	359,706
Interest income accrued on impaired financial assets (included within interest income)	**1,497**	1,652

(1) Interest income on "Financial investments" is principally derived from debt securities listed in the domestic interbank bond market and unlisted debt securities in Hong Kong, Macao, Taiwan and other countries and regions.

(2) The Group's interest expense related to lease liabilities amounted to RMB876 million for the year ended 31 December 2019.

2 Net fee and commission income

	Year ended 31 December	
	2019	2018
Bank card fees	**32,831**	29,943
Agency commissions	**20,320**	20,212
Settlement and clearing fees	**14,713**	13,670
Credit commitment fees	**12,746**	13,181
Spread income from foreign exchange business	**7,154**	7,740
Consultancy and advisory fees	**4,446**	3,534
Custodian and other fiduciary service fees	**4,120**	3,597
Other	**8,587**	8,120
Fee and commission income	**104,917**	99,997
Fee and commission expense	**(15,305)**	(12,789)
Net fee and commission income	**89,612**	87,208

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3 Net trading gains

	Year ended 31 December	
	2019	2018
Net gains from interest rate products	**15,303**	9,910
Net gains/(losses) from foreign exchange and foreign exchange products	**8,974**	(4,574)
Net gains from fund investments and equity products	**2,378**	423
Net gains from commodity products	**1,908**	960
Total(1)	**28,563**	6,719

(1) Included in "Net trading gains" above for the year ended 31 December 2019 are gains of RMB3,426 million in relation to financial assets and financial liabilities designated as at fair value through profit or loss (2018: losses of RMB1,355 million).

4 Net gains on transfers of financial asset

	Year ended 31 December	
	2019	2018
Net gains on derecognition of financial assets at fair value through other comprehensive income	**2,900**	1,700
Net gains on derecognition of financial assets at amortised cost(1)	**577**	1,117
Total	**3,477**	2,817

(1) All the net gains on the derecognition of financial assets at amortised cost result from disposals during the year ended 31 December 2019 and 2018.

5 Other operating income

	Year ended 31 December	
	2019	2018
Insurance premiums(1)	**26,819**	20,965
Aircraft leasing income	**11,753**	10,233
Revenue from sale of precious metals products	**6,484**	7,658
Dividend income(2)	**3,370**	1,918
Gains on disposal of property and equipment, intangible assets and other assets	**1,251**	949
Changes in fair value of investment properties (Note V.21)	**496**	919
Gains on disposal of subsidiaries, associates and joint ventures	**91**	148
Other(3)	**3,844**	4,566
Total	**54,108**	47,356

(1) Details of insurance premium income are as follows:

	Year ended 31 December	
	2019	2018
Life insurance contracts		
Gross earned premiums	**28,073**	21,037
Less: gross written premiums ceded to reinsurers	**(7,591)**	(6,259)
Net insurance premium income	**20,482**	14,778
Non-life insurance contracts		
Gross earned premiums	**7,587**	7,365
Less: gross written premiums ceded to reinsurers	**(1,250)**	(1,178)
Net insurance premium income	**6,337**	6,187
Total	**26,819**	20,965

(2) For equity instruments classified as financial assets at fair value through other comprehensive income, RMB388 million of dividend income is recognised for the year ended 31 December 2019 (2018: RMB265 million).

(3) For the year ended 31 December 2019, the government subsidy income from operating activities, as part of other operating income, is RMB283 million (2018: RMB620 million).

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6 Operating expenses

	Year ended 31 December	
	2019	2018
Staff costs (Note V.7)	**90,762**	85,391
General operating and administrative expenses[(1)(2)]	**41,845**	42,768
Insurance benefits and claims		
— Life insurance contracts	**21,829**	13,093
— Non-life insurance contracts	**4,208**	3,915
Depreciation and amortisation	**21,175**	13,451
Cost of sales of precious metal products	**5,372**	7,185
Taxes and surcharges	**4,984**	4,744
Other	**8,094**	6,432
Total[(3)]	**198,269**	176,979

(1) Included in the "General operating and administrative expenses" is principal auditors' remuneration of RMB229 million for the year ended 31 December 2019 (2018: RMB232 million), of which RMB72 million is for Hong Kong, Macao, Taiwan and other countries and regions of the Group (2018: RMB71 million).

(2) Included in the "General operating and administrative expenses" are lease expenses related to short-term leases and leases of low-value assets of RMB1,405 million for the year ended 31 December 2019.

(3) Included in the "Operating expenses" are premises and equipment-related expenses (mainly comprised of property management and building maintenance expenses and taxes) of RMB13,644 million (2018: RMB12,262 million).

7 Staff costs

	Year ended 31 December	
	2019	2018
Salary, bonus and subsidy	**61,104**	58,242
Staff welfare	**3,896**	3,583
Retirement benefits	**60**	85
Social insurance		
— Medical	**4,085**	3,644
— Pension	**6,249**	6,835
— Annuity	**4,178**	2,372
— Unemployment	**207**	206
— Injury at work	**76**	87
— Maternity insurance	**256**	243
Housing funds	**4,595**	4,628
Labour union fee and staff education fee	**2,032**	1,941
Reimbursement for cancellation of labour contract	**15**	13
Other	**4,009**	3,512
Total	**90,762**	85,391

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8 Directors', supervisors' and senior management's emoluments

Details of the directors' and supervisors' emoluments are as follows:

For the year ended 31 December 2019

	Fees	Remuneration paid	Contributions to pension schemes	Benefits in kind	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors					
LIU Liange(4)	–(2)	579	65	82	726
LIN Jingzhen(4)(5)	–(2)	521	63	82	666
CHEN Siqing(4)(6)	–(2)	193	24	26	243
WU Fulin(4)(5)(6)	–(2)	521	63	82	666
Non-executive directors					
ZHAO Jie(1)	–	–	–	–	–
XIAO Lihong(1)	–	–	–	–	–
WANG Xiaoya(1)	–	–	–	–	–
ZHANG Jiangang(1)(5)	–	–	–	–	–
LI Jucai(1)(6)	–	–	–	–	–
LIAO Qiang(1)(6)	–	–	–	–	–
Independent directors					
WANG Changyun	621	–	–	–	621
Angela CHAO	450	–	–	–	450
JIANG Guohua	455	–	–	–	455
Martin Cheung Kong LIAO(5)	146	–	–	–	146
LU Zhengfei(6)	321	–	–	–	321
LEUNG Cheuk Yan(6)	270	–	–	–	270
Supervisors					
WANG Xiquan(4)	–	579	65	82	726
WANG Zhiheng	50(3)	–	–	–	50
LI Changlin	50(3)	–	–	–	50
LENG Jie	50(3)	–	–	–	50
JIA Xiangsen(5)	145	–	–	–	145
ZHENG Zhiguang(5)	145	–	–	–	145
LIU Wanming(4)(6)	–	341	35	46	422
CHEN Yuhua(6)	98	–	–	–	98
	2,801	2,734	315	400	6,250

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8 Directors', supervisors' and senior management's emoluments (Continued)

For the year ended 31 December 2018

	Fees	Remuneration paid	Contributions to pension schemes	Benefits in kind	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors					
CHEN Siqing[4][6]	–[2]	745	69	75	889
LIU Liange[4]	–[2]	248	24	26	298
GAO Yingxin[4]	–[2]	56	5	6	67
REN Deqi[4]	–[2]	335	32	36	403
ZHANG Qingsong[4]	–[2]	502	50	56	608
Non-executive directors					
ZHAO Jie[1]	–	–	–	–	–
LI Jucai[1][6]	–	–	–	–	–
XIAO Lihong[1]	–	–	–	–	–
WANG Xiaoya[1]	–	–	–	–	–
LIAO Qiang[1][6]	–	–	–	–	–
ZHANG Xiangdong[1]	–	–	–	–	–
Independent directors					
LU Zhengfei[6]	550	–	–	–	550
LEUNG Cheuk Yan[6]	400	–	–	–	400
WANG Changyun	493	–	–	–	493
Angela CHAO	425	–	–	–	425
JIANG Guohua	17	–	–	–	17
Nout WELLINK	297	–	–	–	297
Supervisors					
WANG Xiquan[4]	–	745	69	75	889
LIU Wanming[4][6]	–	1,363	83	186	1,632
WANG Zhiheng	–	–	–	–	–
LI Changlin	–	–	–	–	–
LENG Jie	–	–	–	–	–
CHEN Yuhua[6]	260	–	–	–	260
WANG Xueqiang[4]	–	503	20	61	584
DENG Zhiying	50[3]	–	–	–	50
GAO Zhaogang	50[3]	–	–	–	50
XIANG Xi	50[3]	–	–	–	50
	2,592	4,497	352	521	7,962

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8 Directors', supervisors' and senior management's emoluments (Continued)

(1) For the years ended 31 December 2019 and 2018, these non-executive directors of the Bank were not remunerated by the Bank.

(2) For the years ended 31 December 2019 and 2018, these executive directors of the Bank did not receive any fees.

(3) Employee supervisors' above compensation is paid for serving as the supervisors of the Bank.

(4) The total compensation packages for executive directors and supervisors for the year ended 31 December 2019 including discretionary bonus have not yet been finalised in accordance with the relevant regulations of the PRC authorities. The amount of the compensation not provided for is not expected to have any significant impact on the Group's 2019 financial statements. The final compensation for the year ended 31 December 2019 will be disclosed in a separate announcement when determined.

The compensation amounts for these directors and supervisors for the year ended 31 December 2018 were restated based on the finalised amounts as disclosed in the Bank's announcement dated 30 August 2019.

A portion of the discretionary bonus payments for executive directors and the chairman of the board of supervisors are deferred for a minimum of 3 years, which is contingent upon the future performance in accordance with relevant regulations of the PRC authorities.

(5) WU Fulin and LIN Jingzhen began to serve as Executive Director of the Bank as of 3 February 2019. ZHANG Jiangang began to serve as Non-executive Director of the Bank as of 29 July 2019. Martin Cheung Kong LIAO began to serve as Independent Director of the Bank as of 4 September 2019. JIA Xiangsen and ZHENG Zhiguang began to serve as External Supervisor of the Bank as of 17 May 2019.

(6) CHEN Siqing ceased to serve as Chairman of the Board of Directors and Executive Director of the Bank as of 28 April 2019. WU Fulin ceased to serve as Executive Director of the Bank as of 27 January 2020. LI Jucai ceased to serve as Non-executive Director of the Bank as of 25 June 2019. LIAO Qiang ceased to serve as Non-executive Director of the Bank as of 5 March 2020. LU Zhengfei ceased to serve as Independent Director of the Bank as of 1 August 2019. LEUNG Cheuk Yan ceased to serve as Independent Director of the Bank as of 4 September 2019. LIU Wanming ceased to serve as Shareholder Supervisor of the Bank as of 18 May 2019. CHEN Yuhua ceased to serve as External Supervisor of the Bank as of 17 May 2019.

Five highest paid individuals

Of the five individuals with the highest emoluments, none of them are directors or supervisors whose emoluments are disclosed above.

The emoluments payable to the five individuals whose emoluments were the highest in the Group for the years ended 31 December 2019 and 2018 respectively are as follows:

	Year ended 31 December	
	2019	2018
Basic salaries and allowances	**24**	23
Discretionary bonuses	**124**	105
Contributions to pension schemes and other	**4**	4
	152	132

Emoluments of the individuals were within the following bands:

	Year ended 31 December	
Amounts in RMB	**2019**	2018
16,000,001–20,000,000	**–**	1
20,000,001–50,000,000	**4**	4
50,000,001–70,000,000	**1**	–

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8 Directors', supervisors' and senior management's emoluments (Continued)

Five highest paid individuals (Continued)

The above five highest paid individuals' emoluments are based on best estimates of discretionary bonuses. Discretionary bonuses include portions of payments that are deferred to future periods.

During the years ended 31 December 2019 and 2018, the Group has not paid any emoluments to the directors, supervisors, or senior management as an inducement to join or upon joining the Group or as compensation for loss of office.

9 Impairment losses on assets

	Year ended 31 December	
	2019	2018
Loans and advances		
— Loans and advances at amortised cost	**98,483**	108,669
— Loans and advances at fair value through other comprehensive income	**288**	(764)
Subtotal	**98,771**	107,905
Financial investments		
— Financial assets at amortised cost	**(187)**	1,132
— Financial assets at fair value through other comprehensive income	**387**	(46)
Subtotal	**200**	1,086
Credit commitments	**2,117**	(10,194)
Other	**883**	346
Subtotal of impairment losses on credit	**101,971**	99,143
Other impairment losses on assets	**182**	151
Total	**102,153**	99,294

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10 Income tax expense

	Year ended 31 December	
	2019	2018
Current income tax		
— Chinese mainland income tax	**43,643**	20,726
— Hong Kong profits tax	**5,297**	5,036
— Macao, Taiwan and other countries and regions taxation	**4,768**	5,917
Adjustments in respect of current income tax of prior years	**3,870**	(9,255)
Subtotal	**57,578**	22,424
Deferred income tax (Note V.35.3)	**(8,824)**	14,784
Total	**48,754**	37,208

The principal tax rates applicable to the Group are set out in Note IV.

The provision for Chinese mainland income tax includes income tax based on the statutory tax rate of 25% of the taxable income of the Bank and each of its subsidiaries established in the Chinese mainland, and supplementary PRC tax on overseas operations as determined in accordance with the relevant PRC income tax rules and regulations (Note III.5).

Taxation on profits of Hong Kong, Macao, Taiwan and other countries and regions has been calculated on the estimated assessable profits in accordance with local tax regulations at the rates of taxation prevailing in the countries or regions in which the Group operates.

The tax rate on the Group's profit before tax differs from the theoretical amount that would arise using the basic Chinese mainland tax rate of the Bank as follows:

	Year ended 31 December	
	2019	2018
Profit before income tax	**250,645**	229,643
Tax calculated at the applicable statutory tax rate	**62,661**	57,411
Effect of different tax rates for Hong Kong, Macao, Taiwan and other countries and regions	**(5,282)**	(4,712)
Supplementary PRC tax on overseas income	**2,251**	1,347
Income not subject to tax[1]	**(27,846)**	(23,934)
Items not deductible for tax purposes[2]	**13,442**	10,977
Other	**3,528**	(3,881)
Income tax expense	**48,754**	37,208

(1) Income not subject to tax is mainly comprised of interest income from PRC Treasury bonds and local government bonds, and the tax-free income recognised by the overseas entities in accordance with the local tax law.

(2) Non-deductible items primarily include non-deductible losses resulting from the write-off of certain non-performing loans, and marketing and entertainment expenses in excess of the relevant deductible threshold under the relevant PRC tax regulations.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11 Earnings per share (basic and diluted)

Basic earnings per share was computed by dividing the profit attributable to the ordinary shareholders of the Bank by the weighted average number of ordinary shares in issue during the reporting period.

Diluted earnings per share was computed by dividing the adjusted profit attributable to the ordinary shareholders of the Bank based on assuming the conversion of all potentially dilutive shares for the reporting period by the adjusted weighted average number of ordinary shares in issue. There was no difference between basic and diluted earnings per share as there were no potentially dilutive shares outstanding for the years ended 31 December 2019 and 2018.

	Year ended 31 December	
	2019	2018
Profit attributable to equity holders of the Bank	**187,405**	180,086
Less: dividends on preference shares declared	**(6,826)**	(6,791)
Profit attributable to ordinary shareholders of the Bank	**180,579**	173,295
Weighted average number of ordinary shares in issue (in million shares)	**294,378**	294,373
Basic and diluted earnings per share (in RMB)	**0.61**	0.59

Weighted average number of ordinary shares in issue (in million shares)

	Year ended 31 December	
	2019	2018
Issued ordinary shares as at 1 January	**294,388**	294,388
Less: weighted average number of treasury shares	**(10)**	(15)
Weighted average number of ordinary shares in issue	**294,378**	294,373

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12 Other comprehensive income

Accrual amount of other comprehensive income:

	Year ended 31 December	
	2019	2018
Items that will not be reclassified to profit or loss		
Actuarial gains/(losses) on defined benefit plans	**13**	(103)
Changes in fair value on investments in equity instruments designated at fair value through other comprehensive income	**2,790**	(1,391)
Less: related income tax impact	**(644)**	175
Other	**(69)**	(52)
Subtotal	**2,090**	(1,371)
Items that may be reclassified subsequently to profit or loss		
Changes in fair value on investments in debt instruments measured at fair value through other comprehensive income	**17,694**	28,821
Less: related income tax impact	**(3,795)**	(5,684)
Amount transferred to the income statement	**(2,535)**	(1,410)
Less: related income tax impact	**555**	345
	11,919	22,072
Allowance for credit losses on investments in debt instruments measured at fair value through other comprehensive income	**682**	(804)
Less: related income tax impact	**(167)**	204
	515	(600)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	**(587)**	127
Less: related income tax impact	**147**	(68)
	(440)	59
Exchange differences on translation of foreign operations	**7,764**	12,381
Less: net amount transferred to the income statement from other comprehensive income	**(675)**	394
	7,089	12,775
Other	**602**	197
Subtotal	**19,685**	34,503
Total	**21,775**	33,132

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12 Other comprehensive income (Continued)

Other comprehensive income attributable to equity holders of the Bank in the consolidated statement of financial position:

	(Losses)/gains on financial assets at fair value through other comprehensive income	Exchange differences on translation of foreign operations	Other	Total
As at 1 January 2018	(11,692)	(19,684)	2,922	(28,454)
Changes in amount for the previous year	21,087	8,725	59	29,871
As at 1 January 2019	**9,395**	**(10,959)**	**2,981**	**1,417**
Changes in amount for the year	**13,139**	**4,787**	**270**	**18,196**
As at 31 December 2019	**22,534**	**(6,172)**	**3,251**	**19,613**

13 Cash and due from banks and other financial institutions

	As at 31 December	
	2019	2018
Cash	**64,907**	76,755
Due from banks in Chinese mainland	**361,232**	270,861
Due from other financial institutions in Chinese mainland	**8,043**	13,767
Due from banks in Hong Kong, Macao, Taiwan and other countries and regions	**128,312**	75,998
Due from other financial institutions in Hong Kong, Macao, Taiwan and other countries and regions	**461**	278
Subtotal[(1)]	**498,048**	360,904
Accrued interest	**3,060**	2,698
Less: allowance for impairment losses[(1)]	**(548)**	(426)
Subtotal due from banks and other financial institutions	**500,560**	363,176
Total	**565,467**	439,931

(1) As at 31 December 2019 and 2018, the Group included all due from banks and other financial institutions in Stage 1, and measured the impairment losses based on expected credit losses in the next 12 months (12-month ECL).

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14 Balances with central banks

	As at 31 December	
	2019	2018
Mandatory reserves(1)	**1,498,666**	1,575,873
Surplus reserves(2)	**132,247**	82,598
Other(3)	**447,048**	671,249
Subtotal	**2,077,961**	2,329,720
Accrued interest	**848**	1,333
Total	**2,078,809**	2,331,053

(1) The Group places mandatory reserve funds with the People's Bank of China (the "PBOC") and the central banks of Hong Kong, Macao, Taiwan and other countries and regions where it has operations. As at 31 December 2019, mandatory reserve funds placed with the PBOC were calculated at 12.5% (31 December 2018: 14.0%) and 5.0% (31 December 2018: 5.0%) of qualified RMB deposits and foreign currency deposits from customers of branches in Chinese mainland of the Bank respectively. The mandatory reserve funds placed with the central bank of domestic subsidiaries of the Group are determined by the PBOC. The amounts of mandatory reserve funds placed with the central banks of other jurisdictions are determined by local regulations.

(2) This primarily represented the surplus reserve funds placed with the PBOC by branches in Chinese mainland and other funds.

(3) This mainly represented balances other than mandatory reserves and surplus reserves placed with the PBOC and the central banks in Hong Kong, Macao, Taiwan and other countries and regions.

15 Placements with and loans to banks and other financial institutions

	As at 31 December	
	2019	2018
Placements with and loans to:		
Banks in Chinese mainland	**134,671**	172,366
Other financial institutions in Chinese mainland	**601,525**	771,007
Banks in Hong Kong, Macao, Taiwan and other countries and regions	**139,744**	83,223
Other financial institutions in Hong Kong, Macao, Taiwan and other countries and regions	**19,667**	11,723
Subtotal(1)(2)	**895,607**	1,038,319
Accrued interest	**4,090**	4,404
Less: allowance for impairment losses(2)	**(738)**	(365)
Total	**898,959**	1,042,358

(1) "Placements with and loans to banks and other financial institutions" include balances arising from reverse repo agreements and collateralised financing agreements. These are presented by collateral type as follows:

	As at 31 December	
	2019	2018
Debt securities		
— Governments	**37,435**	52,716
— Policy banks	**93,364**	190,646
— Financial institutions	**23,588**	16,498
— Corporates	**–**	737
Subtotal	**154,387**	260,597
Less: allowance for impairment losses	**–**	–
Total	**154,387**	260,597

(2) As at 31 December 2019 and 2018, the Group included the predominant majority of its placements with and loans to banks and other financial institutions in Stage 1, and measured the impairment losses based on expected credit losses in the next 12 months (12-month ECL).

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16 Derivative financial instruments and hedge accounting

The Group enters into foreign currency exchange rate, interest rate, equity, credit or precious metals and other commodity-related derivative financial instruments for trading, hedging, asset and liability management and on behalf of customers.

The contractual/notional amounts and fair values of derivative instruments held by the Group are set out in the following tables. The contractual/notional amounts of financial instruments provide a basis for comparison with the fair values of instruments recognised in the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or market risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates, foreign currency exchange rates, credit spreads, or equity/commodity prices relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

16.1 Derivative financial instruments

	As at 31 December 2019			As at 31 December 2018		
	Contractual/ Notional amount	**Fair value Assets**	**Fair value Liabilities**	Contractual/ Notional amount	Fair value Assets	Fair value Liabilities
Exchange rate derivatives						
Currency forwards and swaps, and cross-currency interest rate swaps[(1)]	**6,469,750**	**65,477**	**(52,598)**	8,245,972	97,603	(73,652)
Currency options	**333,559**	**1,835**	**(2,019)**	220,694	2,210	(1,829)
Currency futures	**1,894**	**10**	**(6)**	1,718	4	(11)
Subtotal	**6,805,203**	**67,322**	**(54,623)**	8,468,384	99,817	(75,492)
Interest rate derivatives						
Interest rate swaps	**3,454,898**	**18,252**	**(23,188)**	2,443,952	19,637	(18,012)
Interest rate options	**17,729**	**31**	**(29)**	24,342	42	(44)
Interest rate futures	**2,400**	**3**	**(27)**	17,970	1	(39)
Subtotal	**3,475,027**	**18,286**	**(23,244)**	2,486,264	19,680	(18,095)
Equity derivatives	**9,219**	**137**	**(184)**	7,276	237	(208)
Commodity derivatives and other	**347,655**	**7,590**	**(12,009)**	247,867	4,392	(5,459)
Total[(2)]	**10,637,104**	**93,335**	**(90,060)**	11,209,791	124,126	(99,254)

(1) These exchange rate derivatives primarily include foreign exchange transactions with customers; foreign exchange transactions to manage foreign currency exchange risks arising from customers; and foreign currency exchange transactions entered into as part of the asset and liability management and funding requirements.

(2) The derivative financial instruments above include those designated as hedging instruments by the Group.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16 Derivative financial instruments and hedge accounting (Continued)

16.2 Hedge accounting

(1) *Fair value hedges*

The Group uses cross-currency interest rate swaps and interest rate swaps to hedge against changes in fair value of bonds issued and financial investments arising from changes in foreign currency exchange rates and interest rates. Foreign currency exchange rate risk and interest rate risk are usually the primary risks which affect the change in fair value.

(i) The following table contains details of the derivative hedging instruments used in the Group's fair value hedging strategies:

	Derivatives designated as hedging instruments in fair value hedges			
	Contractual/ Notional amount	Fair value Assets	Fair value Liabilities	Line item in the statement of financial position
As at 31 December 2019				
Interest rate risk				
Interest rate swaps	**113,883**	**372**	**(2,366)**	**Derivative financial assets/liabilities**
Foreign exchange and interest rate risk				
Cross-currency interest rate swaps	**4,351**	**–**	**(711)**	**Derivative financial liabilities**
Total	**118,234**	**372**	**(3,077)**	
As at 31 December 2018				
Interest rate risk				
Interest rate swaps	117,618	1,788	(624)	Derivative financial assets/liabilities
Foreign exchange and interest rate risk				
Cross-currency interest rate swaps	4,280	–	(660)	Derivative financial liabilities
Total	121,898	1,788	(1,284)	

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16 Derivative financial instruments and hedge accounting (Continued)

16.2 Hedge accounting (Continued)

(1) *Fair value hedges (Continued)*

(i) The following table contains details of the derivative hedging instruments used in the Group's fair value hedging strategies (Continued):

The following table sets out the maturity and average exchange rate/interest rate information of the hedging instruments mentioned above:

	Fair value hedges					
	Less than 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	Over 5 years	Total
As at 31 December 2019						
Interest rate risk						
Interest rate swaps						
Notional amount	**760**	**2,806**	**11,014**	**63,807**	**35,496**	**113,883**
Average fixed interest rate	**2.89%**	**3.12%**	**2.29%**	**3.05%**	**3.17%**	**N/A**
Foreign exchange and interest rate risk						
Cross-currency interest rate swaps						
Notional amount	**1,309**	**–**	**1,062**	**1,980**	**–**	**4,351**
Average fixed interest rate	**5.38%**	**–**	**4.50%**	**5.28%**	**–**	**N/A**
Average exchange rate of USD/CNY	**–**	**–**	**6.5717**	**6.1217**	**–**	**N/A**
Average exchange rate of AUD/USD	**0.9381**	**–**	**–**	**0.9294**	**–**	**N/A**
As at 31 December 2018						
Interest rate risk						
Interest rate swaps						
Notional amount	206	2,127	11,529	71,852	31,904	117,618
Average fixed interest rate	2.95%	2.10%	3.34%	2.86%	3.23%	N/A
Foreign exchange and interest rate risk						
Cross-currency interest rate swaps						
Notional amount	–	–	–	3,939	341	4,280
Average fixed interest rate	–	–	–	5.09%	5.50%	N/A
Average exchange rate of USD/CNY	–	–	–	6.4848	6.0350	N/A
Average exchange rate of AUD/USD	–	–	–	0.9337	–	N/A

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16 Derivative financial instruments and hedge accounting (Continued)

16.2 Hedge accounting (Continued)

(1) *Fair value hedges (Continued)*

(ii) The following table sets out the details of the hedged items covered by the Group's fair value hedging strategies:

	Fair value hedges				
	Carrying amount of hedged items		Accumulated amount of fair value adjustments on the hedged items		Line item in the statement of financial position
	Assets	Liabilities	Assets	Liabilities	
As at 31 December 2019					
Interest rate risk					
Bonds issued	**–**	**(11,962)**	**–**	**(75)**	**Bonds issued**
Financial investments	**105,905**	**–**	**2,520**	**–**	**Financial investments**
Foreign exchange and interest rate risk					
Bonds issued	**–**	**(3,640)**	**–**	**711**	**Bonds issued**
Total	**105,905**	**(15,602)**	**2,520**	**636**	
As at 31 December 2018					
Interest rate risk					
Bonds issued	–	(15,638)	–	174	Bonds issued
Financial investments	101,287	–	(1,956)	–	Financial investments
Foreign exchange and interest rate risk					
Bonds issued	–	(3,621)	–	660	Bonds issued
Total	101,287	(19,259)	(1,956)	834	

(iii) The Group's net gains on fair value hedges are as follows:

	Year ended 31 December	
	2019	2018
Net gains on		
— hedging instruments	**(3,097)**	192
— hedged items	**3,291**	115
Ineffectiveness recognised in net trading gains	**194**	307

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16 Derivative financial instruments and hedge accounting (Continued)

16.2 Hedge accounting (Continued)

(2) Net investment hedges

The Group's consolidated statement of financial position is affected by exchange differences between the functional currencies of the Group and functional currencies of its branches and subsidiaries. The Group hedges such exchange exposures only in limited circumstances. Hedging is undertaken using due to customers, due to central banks and foreign exchange forward and swap contracts in the same or exchange-rate pegged currencies as the functional currencies of the related branches and subsidiaries which are accounted for as hedges of certain net investments in foreign operations. Under the hedging relationships of designating due to customers, due to central banks and foreign exchange forward and swap contracts as hedging instruments, the Group separates the forward element and the spot element of a forward contract and designates as the hedging instrument only the change in the value of the spot element of the forward contract. There was no ineffectiveness in the year ended 31 December 2019 (2018: Nil).

(i) Details of due to customers and due to central banks used in the Group's net investment hedging strategies:

As at 31 December 2019, the carrying value of such due to customers amounted to RMB104,419 million (31 December 2018: RMB55,034 million) and due to central banks amounted to RMB1,407 million (31 December 2018: Nil).

(ii) The following table contains details of the derivative hedging instruments used in the Group's net investment hedging strategies:

	Derivatives designated as net investment hedging instruments			
	Contractual/ Notional amount	Fair value Assets	Fair value Liabilities	Line item in the statement of financial position
As at 31 December 2019				
Foreign exchange forward and swap contracts	**41,128**	**29**	**(308)**	**Derivative financial assets/liabilities**
Total	**41,128**	**29**	**(308)**	
As at 31 December 2018				
Foreign exchange forward and swap contracts	2,157	–	(68)	Derivative financial liabilities
Total	2,157	–	(68)	

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16 Derivative financial instruments and hedge accounting (Continued)

16.2 Hedge accounting (Continued)

(2) *Net investment hedges (Continued)*

(ii) The following table contains details of the derivative hedging instruments used in the Group's net investment hedging strategies (Continued):

The following table sets out the maturity and average exchange rate of the hedging instruments mentioned above:

	Net investment hedges					
	Less than 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	Over 5 years	Total
As at 31 December 2019						
Foreign exchange risk						
Foreign exchange forward and swap contracts						
Notional amount	**–**	**1,246**	**39,882**	**–**	**–**	**41,128**
Average exchange rate of USD/HKD	**–**	**–**	**7.8355**	**–**	**–**	**N/A**
Average exchange rate of USD/ZAR	**–**	**15.0995**	**15.2113**	**–**	**–**	**N/A**
Average exchange rate of USD/INR	**–**	**–**	**73.2963**	**–**	**–**	**N/A**
Average exchange rate of USD/MXN	**–**	**–**	**20.1698**	**–**	**–**	**N/A**
Average exchange rate of NZD/USD	**–**	**0.6909**	**–**	**–**	**–**	**N/A**
Average exchange rate of USD/CLP	**–**	**–**	**723.0169**	**–**	**–**	**N/A**
Average exchange rate of USD/SGD	**–**	**–**	**1.3597**	**–**	**–**	**N/A**
As at 31 December 2018						
Foreign exchange risk						
Foreign exchange forward and swap contracts						
Notional amount	–	–	2,157	–	–	2,157
Average exchange rate of USD/ZAR	–	–	15.8892	–	–	N/A
Average exchange rate of USD/TRY	–	–	5.9104	–	–	N/A

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16 Derivative financial instruments and hedge accounting (Continued)

16.2 Hedge accounting (Continued)

(2) *Net investment hedges (Continued)*

(iii) The Group's gains or losses from the hedging instruments recognised in "Other comprehensive income" on net investment hedges are as follows:

	Year ended 31 December	
	2019	2018
Amounts of fair value changes on hedging instruments recognised in "Other comprehensive income"	**(849)**	(475)
Amounts of forward element reclassified from "Other comprehensive income" to profit or loss	**172**	16
Net amounts of fair value changes on hedging instruments recognised in "Other comprehensive income"	**(677)**	(459)

17 Loans and advances to customers

17.1 Analysis of loans and advances to customers by general condition

	As at 31 December	
	2019	2018
Measured at amortised cost		
— Corporate loans and advances	**7,644,359**	7,117,954
— Personal loans	**5,047,809**	4,440,085
— Discounted bills	**2,334**	2,001
Measured at fair value through other comprehensive income(1)		
— Discounted bills	**335,583**	224,113
Subtotal	**13,030,085**	11,784,153
Measured at fair value through profit or loss(2)		
— Corporate loans and advances	**4,104**	3,530
Total	**13,034,189**	11,787,683
Accrued interest	**34,596**	31,589
Total loans and advances	**13,068,785**	11,819,272
Less: allowance for loans at amortised cost	**(325,360)**	(303,508)
Loans and advances to customers, net	**12,743,425**	11,515,764

(1) As at 31 December 2019, loans at fair value through other comprehensive income of the Group were discounted bills. The allowance for impairment losses amounted to RMB563 million (31 December 2018: RMB273 million) and was credited to other comprehensive income.

(2) There was no significant change during the years ended 31 December 2019 and 2018, or cumulatively, in the fair value of the loans that was attributable to changes in the credit risk of the loans.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17 Loans and advances to customers (Continued)

17.2 Analysis of loans and advances to customers (accrued interest excluded) by geographical area, industry, collateral type and analysis of impaired and overdue loans and advances to customers is presented in Note VI.3.5.

17.3 Reconciliation of allowance for impairment losses on loans and advances to customers

(1) Allowance for loans at amortised cost

	Year ended 31 December 2019			
	12-month ECL	Lifetime ECL		
	Stage 1	Stage 2	Stage 3	Total
As at 1 January	**95,789**	**76,603**	**131,116**	**303,508**
Transfers to Stage 1	**5,590**	**(5,037)**	**(553)**	**–**
Transfers to Stage 2	**(717)**	**4,411**	**(3,694)**	**–**
Transfers to Stage 3	**(989)**	**(21,029)**	**22,018**	**–**
Charge for the year[(i)]	**52,623**	**40,603**	**38,420**	**131,646**
Reversal	**(37,580)**	**(25,687)**	**(14,631)**	**(77,898)**
Impairment (reversal)/losses due to stage transformation	**(4,917)**	**8,664**	**40,988**	**44,735**
Write-off and transfer out	**(269)**	**–**	**(84,735)**	**(85,004)**
Recovery of loans and advances written off	**–**	**–**	**8,407**	**8,407**
Unwinding of discount on allowance	**–**	**–**	**(1,497)**	**(1,497)**
Exchange differences and other	**235**	**523**	**705**	**1,463**
As at 31 December	**109,765**	**79,051**	**136,544**	**325,360**

	Year ended 31 December 2018			
	12-month ECL	Lifetime ECL		
	Stage 1	Stage 2	Stage 3	Total
As at 1 January	87,094	76,050	117,419	280,563
Transfers to Stage 1	10,301	(9,636)	(665)	–
Transfers to Stage 2	(1,481)	1,929	(448)	–
Transfers to Stage 3	(350)	(25,985)	26,335	–
Charge for the year[(i)]	48,437	38,720	45,365	132,522
Reversal	(39,519)	(20,181)	(13,102)	(72,802)
Impairment (reversal)/losses due to stage transformation	(9,674)	17,487	41,136	48,949
Write-off and transfer out	(192)	(1,969)	(89,497)	(91,658)
Recovery of loans and advances written off	–	–	5,413	5,413
Unwinding of discount on allowance	–	–	(1,652)	(1,652)
Acquisition of subsidiaries	359	29	296	684
Exchange differences and other	814	159	516	1,489
As at 31 December	95,789	76,603	131,116	303,508

(i) Charge for the year comprises the impairment losses from new loans, remaining loans without stage transformation, model/risk parameters adjustment, etc.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17 Loans and advances to customers (Continued)

17.3 Reconciliation of allowance for impairment losses on loans and advances to customers (Continued)

(2) Allowance for loans at fair value through other comprehensive income

	Year ended 31 December 2019			
	12-month ECL	Lifetime ECL		
	Stage 1	Stage 2	Stage 3	Total
As at 1 January	**234**	**39**	**–**	**273**
Charge for the year	**503**	**16**	**–**	**519**
Reversal	**(192)**	**(39)**	**–**	**(231)**
Exchange differences and other	**2**	**–**	**–**	**2**
As at 31 December	**547**	**16**	**–**	**563**

	Year ended 31 December 2018			
	12-month ECL	Lifetime ECL		
	Stage 1	Stage 2	Stage 3	Total
As at 1 January	829	204	–	1,033
Charge for the year	255	39	–	294
Reversal	(854)	(204)	–	(1,058)
Exchange differences and other	4	–	–	4
As at 31 December	234	39	–	273

In 2019, the changes in gross carrying amounts of loans and advances to customers that have a significant impact on the Group's impairment allowance mainly derived from the credit business in the Chinese mainland, including:

- The domestic branches performed regular reviews of the five-category loan classification grading and internal credit ratings on their loans and advances to customers. Loans with gross carrying amount of RMB69,820 million (2018: RMB139,844 million) was transferred from Stage 1 to Stage 2 and Stage 3, and the impairment allowance increased correspondingly by RMB21,963 million (2018: RMB32,041 million). The gross carrying amount of loans transferred from Stage 2 to Stage 3 was RMB59,760 million (2018: RMB65,455 million), with a corresponding increase in impairment allowance of RMB22,340 million (2018: RMB21,567 million). The gross carrying amount of the loans transferred from Stage 2 to Stage 1 was RMB45,059 million (2018: RMB47,963 million), and the impairment allowance decreased correspondingly by RMB3,273 million (2018: RMB8,803 million). The gross carrying amount of loans transferred from Stage 3 to Stage 2 and Stage 1 was RMB5,857 million, and the impairment allowance decreased correspondingly by RMB1,677 million (2018: not significant).

- The write-off and disposal of the non-performing loans by the domestic branches amounted to RMB78,404 million (2018: RMB92,527 million), resulting in a corresponding reduction of RMB69,468 million (2018: RMB79,258 million) in impairment allowance for Stage 3 loans.

- The domestic branches converted RMB12,813 million (2018: RMB17,239 million) of loans into equity through debt-to-equity swaps and other instruments, resulting in a decrease of RMB10,193 million in impairment allowance for Stage 3 loans (2018: the impairment allowance for Stage 2 and Stage 3 decreased by RMB1,969 million and RMB4,927 million respectively).

- Through personal housing loan securitization, the domestic branches transferred out RMB50,871 million (2018: RMB37,949 million) of loans, resulting in a decrease of RMB269 million (2018: RMB192 million) and RMB354 million (2018: Nil) in the impairment allowance for Stage 1 and Stage 3 loans respectively.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18 Financial investments

	As at 31 December	
	2019	2018
Financial assets at fair value through profit or loss		
Financial assets held for trading and other financial assets at fair value through profit or loss		
Debt securities		
Issuers in Chinese mainland		
— Government	**16,807**	10,495
— Public sectors and quasi-governments	**595**	647
— Policy banks	**40,005**	33,708
— Financial institutions	**169,477**	113,103
— Corporate	**44,629**	50,646
Issuers in Hong Kong, Macao, Taiwan and other countries and regions		
— Governments	**23,416**	20,595
— Public sectors and quasi-governments	**177**	23
— Financial institutions	**16,617**	14,575
— Corporate	**10,721**	5,085
	322,444	248,877
Equity instruments	**79,456**	47,061
Fund investments and other	**67,562**	49,983
Total financial assets held for trading and other financial assets at fair value through profit or loss	**469,462**	345,921
Financial assets at fair value through profit or loss (designated)		
Debt securities[1]		
Issuers in Chinese mainland		
— Government	**8,797**	1,756
— Policy banks	**2,418**	1,083
— Financial institutions	**9,592**	3,472
— Corporate	**1,329**	966
Issuers in Hong Kong, Macao, Taiwan and other countries and regions		
— Governments	**9,712**	2,916
— Public sectors and quasi-governments	**1,603**	1,494
— Financial institutions	**7,159**	7,977
— Corporate	**8,178**	4,906
Total financial assets at fair value through profit or loss (designated)	**48,788**	24,570
Total financial assets at fair value through profit or loss	**518,250**	370,491

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18 Financial investments (Continued)

	As at 31 December	
	2019	2018
Financial assets at fair value through other comprehensive income		
Debt securities		
Issuers in Chinese mainland		
— Government	**676,685**	570,820
— Public sectors and quasi-governments	**71,172**	41,294
— Policy banks	**299,599**	262,597
— Financial institutions	**315,779**	348,300
— Corporate	**153,617**	120,344
Issuers in Hong Kong, Macao, Taiwan and other countries and regions		
— Governments	**412,194**	265,923
— Public sectors and quasi-governments	**51,252**	37,737
— Financial institutions	**106,951**	120,185
— Corporate	**109,103**	95,032
	2,196,352	1,862,232
Equity instruments and other	**21,777**	17,527
Total financial assets at fair value through other comprehensive income(2)	**2,218,129**	1,879,759
Financial assets at amortised cost		
Debt securities		
Issuers in Chinese mainland		
— Government(3)(4)	**2,168,725**	2,079,661
— Public sectors and quasi-governments	**39,425**	43,610
— Policy banks	**100,638**	194,255
— Financial institutions	**30,637**	34,781
— Corporate	**15,677**	22,539
— China Orient(5)	**152,433**	153,627
Issuers in Hong Kong, Macao, Taiwan and other countries and regions		
— Governments	**80,472**	78,075
— Public sectors and quasi-governments	**66,356**	69,650
— Financial institutions	**31,937**	33,991
— Corporate	**47,588**	49,299
	2,733,888	2,759,488
Investment trusts, asset management plans and other	**13,544**	14,757
Accrued interest	**37,037**	37,810
Less: allowance for impairment losses	**(6,786)**	(7,754)
Total financial assets at amortised cost	**2,777,683**	2,804,301
Total financial investments(6)(7)(8)(9)	**5,514,062**	5,054,551

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18 Financial investments (Continued)

	As at 31 December	
	2019	2018
Analysed as follows:		
Financial assets at fair value through profit or loss		
— Listed in Hong Kong	**46,731**	35,821
— Listed outside Hong Kong(10)	**255,171**	209,996
— Unlisted	**216,348**	124,674
Financial assets at fair value through other comprehensive income		
Debt securities		
— Listed in Hong Kong	**130,743**	129,653
— Listed outside Hong Kong(10)	**1,365,202**	1,363,984
— Unlisted	**700,407**	368,595
Equity instruments and other		
— Listed in Hong Kong	**7,083**	6,233
— Listed outside Hong Kong(10)	**3,215**	2,018
— Unlisted	**11,479**	9,276
Financial assets at amortised cost		
— Listed in Hong Kong	**31,896**	38,550
— Listed outside Hong Kong(10)	**2,308,222**	2,304,434
— Unlisted	**437,565**	461,317
Total	**5,514,062**	5,054,551
Listed in Hong Kong	**216,453**	210,257
Listed outside Hong Kong(10)	**3,931,810**	3,880,432
Unlisted	**1,365,799**	963,862
Total	**5,514,062**	5,054,551

	As at 31 December			
	2019		2018	
	Carrying value	**Market value**	Carrying value	Market value
Debt securities at amortised cost				
— Listed in Hong Kong	**31,896**	**32,847**	38,550	38,155
— Listed outside Hong Kong(10)	**2,308,222**	**2,670,795**	2,304,434	2,318,733

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18 Financial investments (Continued)

(1) In order to eliminate or significantly reduce accounting mismatches, certain debt securities are designated as financial assets at fair value through profit or loss.

(2) The Group exercised its option irrevocably on certain unlisted equity investments, which were classified as financial assets at fair value through other comprehensive income.

The Group's accumulated impairment allowance for the debt securities at fair value through other comprehensive income as at 31 December 2019 amounted to RMB1,254 million (31 December 2018: RMB862 million).

(3) On 18 August 1998, a Special Purpose Treasury Bond was issued by the Ministry of Finance ("MOF") with a par value of RMB42,500 million maturing on 18 August 2028. This bond was originally issued with an annual coupon rate of 7.20% and its coupon rate was restructured to 2.25% per annum from 1 December 2004.

(4) The Bank underwrites certain Treasury bonds issued by the MOF and undertakes the role of a distributor of these Treasury bonds through its branch network earning commission income on bonds sold. The investors of these bonds have a right to redeem the bonds at any time prior to maturity and the Bank is committed to redeem these Treasury bonds. The balance of these bonds held by the Bank as at 31 December 2019 amounted to RMB2,477 million (31 December 2018: RMB2,358 million).

(5) The Bank transferred certain non-performing assets to China Orient Asset Management Corporation ("China Orient") in 1999 and 2000. On 1 July 2000, China Orient issued a ten-year bond ("Orient Bond") with a par value of RMB160,000 million and interest rate of 2.25% to the Bank as consideration. During the year ended 31 December 2010, the maturity of this bond was extended to 30 June 2020. The MOF shall continue to provide funding support for the principal and interest of the Orient Bond held by the Bank pursuant to Caijin [2004] No. 87 *Notice of the MOF Regarding Relevant Issues Relating to the Principal and Interest of Debt Securities of Financial Asset Management Companies Held by Bank of China and China Construction Bank*. As at 31 December 2019, the Bank had received early repayments amounting to RMB7,567 million cumulatively. Pursuant to the requirements of the MOF, as of 1 January 2020, the annual yield of this bond will be determined based on the average yield of the five-year Government Bond calculated for the previous year.

(6) In 2019 and 2018, the Group did not reclassify any of its debt securities subsequent to their initial recognition.

(7) As at 31 December 2019, the Group held bonds issued by the MOF and bills issued by the PBOC included in financial investments. The carrying value (accrued interest excluded) and the related coupon rate range on such bonds and bills are as follows:

	As at 31 December	
	2019	2018
Carrying value (accrued interest excluded)	**981,662**	981,414
Coupon rate range	**0.00%–5.31%**	0.00%–5.31%

(8) Included in the Group's financial investments were certificates of deposit held amounting to RMB243,816 million as at 31 December 2019 (31 December 2018: RMB280,924 million).

(9) As at 31 December 2019, RMB1,140 million of debt securities of the Group was determined to be impaired and was included in Stage 3 (31 December 2018: RMB1,123 million), with an impairment allowance of RMB1,140 million (31 December 2018: RMB1,123 million); RMB479 million of debt securities was included in Stage 2 (31 December 2018: RMB1,755 million), with an impairment allowance of RMB5 million (31 December 2018: RMB4 million); and the remaining debt securities at fair value through other comprehensive income and debt securities at amortised cost were included in Stage 1, with impairment allowance measured based on 12-month expected credit losses.

(10) Debt securities traded in the domestic interbank bond market are included in "Listed outside Hong Kong".

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18 Financial investments (Continued)

Reconciliation of allowance for impairment losses on financial investments at amortised cost:

	Year ended 31 December 2019			
	12-month ECL	Lifetime ECL		
	Stage 1	Stage 2	Stage 3	Total
As at 1 January	328	3	7,423	7,754
Impairment losses/(reversal) during the year	53	(2)	(238)	(187)
Write-off and transfer out	–	–	(800)	(800)
Exchange differences and other	2	–	17	19
As at 31 December	383	1	6,402	6,786

	Year ended 31 December 2018			
	12-month ECL	Lifetime ECL		
	Stage 1	Stage 2	Stage 3	Total
As at 1 January	428	4	6,127	6,559
Impairment (reversal)/losses during the year	(150)	(2)	1,284	1,132
Write-off and transfer out	–	–	(41)	(41)
Exchange differences and other	50	1	53	104
As at 31 December	328	3	7,423	7,754

Reconciliation of allowance for impairment losses on financial investments at fair value through other comprehensive income:

	Year ended 31 December 2019			
	12-month ECL	Lifetime ECL		
	Stage 1	Stage 2	Stage 3	Total
As at 1 January	861	1	–	862
Impairment losses during the year	384	3	–	387
Exchange differences and other	5	–	–	5
As at 31 December	1,250	4	–	1,254

	Year ended 31 December 2018			
	12-month ECL	Lifetime ECL		
	Stage 1	Stage 2	Stage 3	Total
As at 1 January	906	–	–	906
Impairment (reversal)/losses during the year	(47)	1	–	(46)
Exchange differences and other	2	–	–	2
As at 31 December	861	1	–	862

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19 Investment in associates and joint ventures

	Year ended 31 December	
	2019	2018
As at 1 January	**23,369**	17,180
Additions	**2,011**	8,820
Disposals	**(1,368)**	(5,152)
Share of results, net of tax	**1,057**	2,110
Dividends received	**(1,302)**	(227)
Exchange differences and other	**(557)**	638
As at 31 December	**23,210**	23,369

The carrying amounts of major investments in associates and joint ventures of the Group are as follows. Further details are disclosed in Note V.43.4.

	As at 31 December	
	2019	2018
BOC International (China) Co., Ltd.	**4,733**	4,553
Ying Kou Port Group CORP.	**4,479**	4,549
CGN Phase I Private Equity Fund Company Limited	**1,569**	1,504
Graceful Field Worldwide Limited	**1,438**	1,374
Sichuan Lutianhua Co., Ltd.	**1,264**	1,227
Zhongxinboda (Wuhu) Investment Limited Partnership	**1,100**	1,710
Wkland Investments II Limited	**923**	876
Livi VB Limited	**907**	N/A
Wuhu Yuanzhong Jiaying Investment Limited Partnership	**819**	697
Guangdong Small and Medium Enterprises Equity Investment Fund Company Limited	**745**	768
Other	**5,233**	6,111
Total	**23,210**	23,369

As at 31 December 2019, the ability of associates and joint ventures to transfer funds to the Group is not restricted.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20 Property and equipment

	Year ended 31 December 2019				
	Buildings	Equipment and motor vehicles	Construction in progress	Aircraft	Total
Cost					
As at 31 December of prior year	117,948	74,319	30,233	115,153	337,653
Additions	340	6,921	15,977	15,177	38,415
Transfer from/(to) investment properties (Note V.21)	356	–	(11)	–	345
Construction in progress transfer in/(out)	2,238	816	(11,208)	8,154	–
Deductions	(2,388)	(4,639)	(2,467)	(8,746)	(18,240)
Exchange differences	583	239	381	2,083	3,286
As at 31 December	119,077	77,656	32,905	131,821	361,459
Accumulated depreciation					
As at 31 December of prior year	(38,041)	(58,752)	–	(12,437)	(109,230)
Additions	(3,999)	(6,272)	–	(4,180)	(14,451)
Deductions	1,755	4,443	–	2,131	8,329
Transfer to investment properties (Note V.21)	9	–	–	–	9
Exchange differences	(125)	(177)	–	(276)	(578)
As at 31 December	(40,401)	(60,758)	–	(14,762)	(115,921)
Allowance for impairment losses					
As at 31 December of prior year	(770)	–	(217)	(42)	(1,029)
Additions	(7)	–	(10)	–	(17)
Deductions	14	–	–	39	53
Exchange differences	(4)	–	–	(1)	(5)
As at 31 December	(767)	–	(227)	(4)	(998)
Net book value					
As at 31 December of prior year	79,137	15,567	30,016	102,674	227,394
As at 31 December	77,909	16,898	32,678	117,055	244,540

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20 Property and equipment (Continued)

	Year ended 31 December 2018				
	Buildings	Equipment and motor vehicles	Construction in progress	Aircraft	Total
Cost					
As at 1 January	113,913	72,096	22,522	100,551	309,082
Additions	321	5,715	19,850	11,662	37,548
Transfer from investment properties (Note V.21)	1,665	–	–	–	1,665
Construction in progress transfer in/(out)	1,928	807	(11,960)	9,225	–
Deductions	(834)	(4,712)	(816)	(11,181)	(17,543)
Exchange differences	955	413	637	4,896	6,901
As at 31 December	117,948	74,319	30,233	115,153	337,653
Accumulated depreciation					
As at 1 January	(34,732)	(56,683)	–	(10,954)	(102,369)
Additions	(3,626)	(6,185)	–	(3,592)	(13,403)
Deductions	567	4,409	–	2,763	7,739
Transfer to investment properties (Note V.21)	47	–	–	–	47
Exchange differences	(297)	(293)	–	(654)	(1,244)
As at 31 December	(38,041)	(58,752)	–	(12,437)	(109,230)
Allowance for impairment losses					
As at 1 January	(789)	–	(217)	(93)	(1,099)
Additions	–	–	–	–	–
Deductions	15	–	–	56	71
Exchange differences	4	–	–	(5)	(1)
As at 31 December	(770)	–	(217)	(42)	(1,029)
Net book value					
As at 1 January	78,392	15,413	22,305	89,504	205,614
As at 31 December	79,137	15,567	30,016	102,674	227,394

As at 31 December 2019, there were no aircraft owned by BOC Aviation Limited, a subsidiary of the Group, which was acquired under finance lease arrangements (31 December 2018: Nil).

As at 31 December 2019, the net book amount of aircraft leased out by BOC Aviation Limited, a subsidiary of the Group, under operating leases was RMB114,659 million (31 December 2018: RMB102,657 million).

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20 Property and equipment (Continued)

As at 31 December 2019, the net book amount of aircraft owned by BOC Aviation Limited, a subsidiary of the Group, that has been pledged for loan facilities was RMB20,338 million (31 December 2018: RMB22,364 million) (Note V.31).

According to the relevant PRC laws and regulations, after conversion into a joint stock limited liability company, the Bank is required to re-register its property and equipment under the name of Bank of China Limited. As at 31 December 2019, the process of re-registration has not been completed. However, this registration process does not affect the rights of Bank of China Limited to these assets.

The carrying value of buildings is analysed based on the remaining terms of the leases as follows:

	As at 31 December	
	2019	2018
Held in Hong Kong		
on long-term lease (over 50 years)	**3,694**	3,464
on medium-term lease (10–50 years)	**8,521**	8,525
on short-term lease (less than 10 years)	**10**	–
Subtotal	**12,225**	11,989
Held outside Hong Kong		
on long-term lease (over 50 years)	**4,353**	4,198
on medium-term lease (10–50 years)	**54,641**	57,087
on short-term lease (less than 10 years)	**6,690**	5,863
Subtotal	**65,684**	67,148
Total	**77,909**	79,137

21 Investment properties

	Year ended 31 December	
	2019	2018
As at 1 January	**22,086**	21,026
Additions	**468**	1,094
Transfer to property and equipment, net (Note V.20)	**(354)**	(1,712)
Deductions	**(11)**	(61)
Fair value changes (Note V.5)	**496**	919
Exchange differences	**423**	820
As at 31 December	**23,108**	22,086

The Group's investment properties are located in active real estate markets, and external appraisers make reasonable estimation of fair value using market prices of the same or similar properties and other related information from the real estate markets.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

21 Investment properties (Continued)

Investment properties are mainly held by Bank of China Hong Kong (Holdings) Limited ("BOCHK (Holdings)") and Bank of China Group Investment Limited ("BOCG Investment"), subsidiaries of the Group. The carrying values of investment properties held by BOCHK (Holdings) and BOCG Investment as at 31 December 2019 amounted to RMB14,059 million and RMB6,666 million, respectively (31 December 2018: RMB13,371 million and RMB6,668 million). The valuations of these investment properties as at 31 December 2019 were principally performed by Knight Frank Petty Limited based on the open market price and other related information.

The carrying value of investment properties is analysed based on the remaining terms of the leases as follows:

	As at 31 December	
	2019	2018
Held in Hong Kong		
on long-term lease (over 50 years)	**3,273**	2,966
on medium-term lease (10–50 years)	**10,556**	10,185
Subtotal	**13,829**	13,151
Held outside Hong Kong		
on long-term lease (over 50 years)	**4,002**	4,136
on medium-term lease (10–50 years)	**5,002**	4,467
on short-term lease (less than 10 years)	**275**	332
Subtotal	**9,279**	8,935
Total	**23,108**	22,086

22 Other assets

	As at 31 December	
	2019	2018
Accounts receivable and prepayments(1)	**107,124**	82,521
Right-of-use assets(2)	**22,822**	N/A
Intangible assets(3)	**13,352**	12,467
Land use rights(4)	**6,903**	6,985
Long-term deferred expense	**3,222**	3,306
Repossessed assets(5)	**2,400**	2,318
Goodwill(6)	**2,686**	2,620
Interest receivable	**1,878**	1,422
Other	**18,737**	10,587
Total	**179,124**	122,226

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

22 Other assets (Continued)

(1) Accounts receivable and prepayments

	As at 31 December	
	2019	2018
Accounts receivable and prepayments	**111,395**	86,627
Impairment allowance	**(4,271)**	(4,106)
Net value	**107,124**	82,521

Accounts receivable and prepayments mainly include items in the process of clearing and settlement. The analysis of the ageing of accounts receivable and prepayments is as follows:

	As at 31 December			
	2019		2018	
	Balance	**Impairment allowance**	Balance	Impairment allowance
Within 1 year	**101,442**	**(491)**	78,494	(371)
From 1 year to 3 years	**5,895**	**(900)**	3,358	(1,029)
Over 3 years	**4,058**	**(2,880)**	4,775	(2,706)
Total	**111,395**	**(4,271)**	86,627	(4,106)

(2) Right-of-use assets

	Year ended 31 December 2019		
	Buildings	**Motor vehicles and other**	**Total**
Cost			
As at 1 January	**22,652**	**120**	**22,772**
Additions	**7,341**	**38**	**7,379**
Deductions	**(624)**	**(3)**	**(627)**
Exchange differences	**131**	**1**	**132**
As at 31 December	**29,500**	**156**	**29,656**
Accumulated depreciation			
As at 1 January	**(209)**	**–**	**(209)**
Additions	**(6,632)**	**(53)**	**(6,685)**
Deductions	**81**	**–**	**81**
Exchange differences	**(21)**	**–**	**(21)**
As at 31 December	**(6,781)**	**(53)**	**(6,834)**
Net book value			
As at 1 January	**22,443**	**120**	**22,563**
As at 31 December	**22,719**	**103**	**22,822**

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

22 Other assets (Continued)

(3) Intangible assets

	Year ended 31 December	
	2019	2018
Cost		
As at 1 January	**22,946**	19,995
Additions	**3,712**	2,992
Deductions	**(120)**	(97)
Exchange differences	**35**	56
As at 31 December	**26,573**	22,946
Accumulated amortisation		
As at 1 January	**(10,479)**	(8,390)
Additions	**(2,775)**	(2,078)
Deductions	**60**	34
Exchange differences	**(27)**	(45)
As at 31 December	**(13,221)**	(10,479)
Net book value		
As at 1 January	**12,467**	11,605
As at 31 December	**13,352**	12,467

(4) Land use rights

The carrying value of land use rights is analysed based on the remaining terms of the leases as follows:

	As at 31 December	
	2019	2018
Held outside Hong Kong		
on long-term lease (over 50 years)	**83**	94
on medium-term lease (10–50 years)	**6,093**	6,058
on short-term lease (less than 10 years)	**727**	833
Total	**6,903**	6,985

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

22 Other assets (Continued)

(5) Repossessed assets

The Group obtained repossessed assets by taking possession of collateral held as security due to default. Such repossessed assets are as follows:

	As at 31 December	
	2019	2018
Commercial properties	**2,596**	2,391
Residential properties	**615**	606
Other	**159**	158
Subtotal	**3,370**	3,155
Less: allowance for impairment losses	**(970)**	(837)
Repossessed assets, net	**2,400**	2,318

The total book value of repossessed assets disposed of during the year ended 31 December 2019 amounted to RMB276 million (2018: RMB348 million). The Group plans to dispose of the repossessed assets held at 31 December 2019 by auction, bidding or transfer.

(6) Goodwill

	Year ended 31 December	
	2019	2018
As at 1 January	**2,620**	2,481
Addition through acquisition of subsidiaries	**27**	44
Exchange differences	**39**	95
As at 31 December	**2,686**	2,620

The goodwill mainly arose from the acquisition of BOC Aviation Limited in 2006 amounting to USD241 million (equivalent to RMB1,681 million).

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

23 Impairment allowance

	As at 1 January 2019	Additions/ (reversal), net	Write-off and transfer out	Exchange differences and other	As at 31 December 2019
Impairment allowance					
Loans and advances to customers					
— at amortised cost	**303,508**	**98,483**	**(78,094)**	**1,463**	**325,360**
— at fair value through other comprehensive income	**273**	**288**	**–**	**2**	**563**
Financial investments					
— at amortised cost	**7,754**	**(187)**	**(800)**	**19**	**6,786**
— at fair value through other comprehensive income	**862**	**387**	**–**	**5**	**1,254**
Credit commitments	**21,354**	**2,117**	**–**	**126**	**23,597**
Property and equipment	**1,029**	**17**	**(53)**	**5**	**998**
Land use rights	**10**	**–**	**–**	**–**	**10**
Repossessed assets	**837**	**152**	**(23)**	**4**	**970**
Other	**5,935**	**896**	**(300)**	**(7)**	**6,524**
Total	**341,562**	**102,153**	**(79,270)**	**1,617**	**366,062**

	As at 1 January 2018	Additions/ (reversal), net	Write-off and transfer out	Exchange differences and other	As at 31 December 2018
Impairment allowance					
Loans and advances to customers					
— at amortised cost	280,563	108,669	(87,897)	2,173	303,508
— at fair value through other comprehensive income	1,033	(764)	–	4	273
Financial investments					
— at amortised cost	6,559	1,132	(41)	104	7,754
— at fair value through other comprehensive income	906	(46)	–	2	862
Credit commitments	31,182	(10,194)	–	366	21,354
Property and equipment	1,099	–	(71)	1	1,029
Land use rights	15	–	(5)	–	10
Repossessed assets	657	145	(32)	67	837
Other	6,629	352	(907)	(139)	5,935
Total	328,643	99,294	(88,953)	2,578	341,562

24 Due to banks and other financial institutions

	As at 31 December	
	2019	2018
Due to:		
Banks in Chinese mainland	**372,692**	434,504
Other financial institutions in Chinese mainland	**1,050,961**	1,016,374
Banks in Hong Kong, Macao, Taiwan and other countries and regions	**167,352**	193,535
Other financial institutions in Hong Kong, Macao, Taiwan and other countries and regions	**71,913**	79,036
Subtotal	**1,662,918**	1,723,449
Accrued interest	**5,128**	7,760
Total	**1,668,046**	1,731,209

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

25 Due to central banks

	As at 31 December	
	2019	2018
Foreign exchange deposits	**218,364**	204,758
Other	**619,298**	692,494
Subtotal	**837,662**	897,252
Accrued interest	**8,615**	10,269
Total	**846,277**	907,521

26 Government certificates of indebtedness for bank notes issued and bank notes in circulation

Bank of China (Hong Kong) Limited ("BOCHK") and Bank of China Macao Branch are note issuing banks for Hong Kong Dollar and Macao Pataca notes in Hong Kong and Macao, respectively. Under local regulations, these two entities are required to place deposits with the Hong Kong and Macao governments, respectively, to secure the currency notes in circulation.

Bank notes in circulation represent the liabilities in respect of Hong Kong Dollar notes and Macao Pataca notes in circulation, issued respectively by BOCHK and Bank of China Macao Branch.

27 Placements from banks and other financial institutions

	As at 31 December	
	2019	2018
Placements from:		
Banks in Chinese mainland	**339,802**	268,435
Other financial institutions in Chinese mainland	**52,278**	29,495
Banks in Hong Kong, Macao, Taiwan and other countries and regions	**229,337**	307,531
Other financial institutions in Hong Kong, Macao, Taiwan and other countries and regions	**16,434**	4,999
Subtotal	**637,851**	610,460
Accrued interest	**1,824**	1,807
Total(1)(2)	**639,675**	612,267

(1) In order to eliminate or significantly reduce an accounting mismatch, certain placements from banks and other financial institutions were designated as financial liabilities at FVPL by the Group in 2019. The corresponding total carrying amount of the above-mentioned financial liabilities was RMB14,767 million as at 31 December 2019 (31 December 2018: RMB876 million), of which the fair value was approximately the same as the amount that the Group would be contractually required to pay to the holders.

(2) Included in "Placements from banks and other financial institutions" are amounts received from counterparties under repurchase agreements and collateral agreements as follows:

	As at 31 December	
	2019	2018
Repurchase debt securities(i)	**177,410**	285,018

(i) Debt securities used as collateral under repurchase agreements were principally government bonds and were included in the amount disclosed under Note V.41.2.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

28 Financial liabilities held for trading

As at 31 December 2019 and 2018, financial liabilities held for trading mainly included short position in debt securities.

29 Due to customers

	As at 31 December	
	2019	2018
Demand deposits		
— Corporate deposits	**4,434,051**	4,178,962
— Personal deposits	**3,147,889**	2,935,661
Subtotal	**7,581,940**	7,114,623
Time deposits		
— Corporate deposits	**3,619,512**	3,507,071
— Personal deposits	**3,416,862**	3,148,265
Subtotal	**7,036,374**	6,655,336
Structured deposits(1)		
— Corporate deposits	**247,906**	246,380
— Personal deposits	**424,897**	338,544
Subtotal	**672,803**	584,924
Certificates of deposit	**283,193**	287,808
Other deposits(2)	**75,063**	73,751
Subtotal due to customers	**15,649,373**	14,716,442
Accrued interest	**168,175**	167,154
Total due to customers(3)	**15,817,548**	14,883,596

(1) According to risk management policy, in order to match derivatives and reduce market risk, the Group designates some structured deposits as financial liabilities at fair value through profit or loss in the current period. As at 31 December 2019, the carrying amount of the above-mentioned financial liabilities is RMB17,969 million (31 December 2018: RMB24,141 million). At the financial reporting date, the fair value of the above-mentioned financial liabilities was approximately the same as the amount that the Group would be contractually required to pay to the holders. In the years of 2019 and 2018, there is no significant change in the Group's own credit risk for the above structured deposits, therefore, the amount of change in fair value due to the change in the Group's own credit risk is not significant.

(2) Included in other deposits is special purpose funding, which represents long-term funding provided in multiple currencies by foreign governments and/or entities in the form of export credit, foreign government and other subsidised credit. The special purpose funding is normally used to finance projects with a special commercial purpose in the PRC as determined by the foreign governments or entities and the Group is obliged to repay the funding when it falls due.

As at 31 December 2019, the remaining maturity of special purpose funding ranges from 76 days to 34 years. The interest-bearing special purpose funding bears interest at floating and fixed rates ranging from 0.15% to 7.92% (31 December 2018: 0.15% to 7.92%). These terms are consistent with the related development loans granted to customers.

(3) Due to customers included margin deposits for security received by the Group as at 31 December 2019 of RMB290,076 million (31 December 2018: RMB304,388 million).

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

30 Bonds issued

	Issue date	Maturity date	Annual interest rate	As at 31 December 2019	2018
Bonds issued at amortised cost					
Subordinated bonds issued					
2009 RMB Debt Securities First Tranche[1]	6 July 2009	8 July 2024	4.00%	**–**	24,000
2010 RMB Debt Securities[2]	9 March 2010	11 March 2025	4.68%	**24,930**	24,930
2011 RMB Debt Securities[3]	17 May 2011	19 May 2026	5.30%	**32,000**	32,000
2012 RMB Debt Securities Second Tranche[4]	27 November 2012	29 November 2027	4.99%	**18,000**	18,000
Subtotal[14]				**74,930**	98,930
Tier 2 capital bonds issued					
2014 RMB Debt Securities[5]	8 August 2014	11 August 2024	5.80%	**–**	29,972
2014 US Dollar Debt Securities[6]	13 November 2014	13 November 2024	5.00%	**20,852**	20,502
2017 RMB Debt Securities First Tranche[7]	26 September 2017	28 September 2027	4.45%	**29,965**	29,962
2017 RMB Debt Securities Second Tranche[8]	31 October 2017	2 November 2027	4.45%	**29,966**	29,964
2018 RMB Debt Securities First Tranche[9]	3 September 2018	5 September 2028	4.86%	**39,983**	39,982
2018 RMB Debt Securities Second Tranche[10]	9 October 2018	11 October 2028	4.84%	**39,985**	39,984
2019 RMB Debt Securities First Tranche 01[11]	20 September 2019	24 September 2029	3.98%	**29,988**	–
2019 RMB Debt Securities First Tranche 02[12]	20 September 2019	24 September 2034	4.34%	**9,996**	–
2019 RMB Debt Securities Second Tranche[13]	20 November 2019	22 November 2029	4.01%	**29,990**	–
Subtotal[14]				**230,725**	190,366
Other bonds issued[15]					
US Dollar Debt Securities				**223,192**	216,750
RMB Debt Securities				**52,788**	22,454
Other				**58,500**	76,090
Subtotal				**334,480**	315,294
Negotiable certificates of deposit[16]				**423,658**	150,273
Subtotal bonds issued at amortised cost				**1,063,793**	754,863
Bonds issued at fair value[17]				**26,113**	20,517
Subtotal bonds issued				**1,089,906**	775,380
Accrued interest				**6,181**	6,747
Total bonds issued[18]				**1,096,087**	782,127

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

30 Bonds issued (Continued)

(1) The fixed rate portion of the first tranche of the subordinated bonds issued on 6 July 2009 has a maturity of 15 years, with a fixed coupon rate of 4.00%, paid annually. The Bank is entitled to early redeem all of the bonds at face value at the end of the tenth year. The Bank has early redeemed all of the bonds at face value on 8 July 2019.

(2) The subordinated bonds issued on 9 March 2010, have a maturity of 15 years, with a fixed coupon rate of 4.68%, paid annually. The Bank is entitled to early redeem all of the bonds at face value at the end of the tenth year. If the Bank does not exercise this option, the coupon rate of the bonds for the third 5-year period shall be the original coupon rate plus 3.00%, and shall remain fixed until the maturity date.

(3) The subordinated bonds issued on 17 May 2011, have a maturity of 15 years, with a fixed coupon rate of 5.30%, paid annually. The Bank is entitled to early redeem all the subordinated bonds at the end of the tenth year. If the Bank does not exercise this option, the coupon rate of the bonds for the remaining 5-year period shall remain fixed at 5.30%.

(4) The second subordinated bonds issued on 27 November 2012 have a maturity of 15 years, with a fixed coupon rate of 4.99%, paid annually. The Bank is entitled to early redeem all these bonds at the end of the tenth year. If the Bank does not exercise this option, the coupon rate of the bonds for the remaining 5-year period shall remain fixed at 4.99%.

(5) The Bank issued tier 2 capital bonds in an amount of RMB30 billion on 8 August 2014. The bonds have a maturity of 10 years, with a fixed coupon rate of 5.80%. The Bank is entitled to redeem the bonds at the end of the fifth year. The Bank has early redeemed all of the bonds at face value on 12 August 2019.

(6) The Bank issued tier 2 capital bonds in an amount of USD3 billion on 13 November 2014. The bonds have a maturity of 10 years, with a fixed coupon rate of 5.00%.

(7) The Bank issued tier 2 capital bonds in an amount of RMB30 billion on 26 September 2017. The bonds have a maturity of 10 years, with a fixed coupon rate of 4.45%. The Bank is entitled to redeem the bond at the end of the fifth year.

(8) The Bank issued tier 2 capital bonds in an amount of RMB30 billion on 31 October 2017. The bonds have a maturity of 10 years, with a fixed coupon rate of 4.45%. The Bank is entitled to redeem the bond at the end of the fifth year.

(9) The Bank issued tier 2 capital bonds in an amount of RMB40 billion on 3 September 2018. The bonds have a maturity of 10 years, with a fixed coupon rate of 4.86%. The Bank is entitled to redeem the bond at the end of the fifth year.

(10) The Bank issued tier 2 capital bonds in an amount of RMB40 billion on 9 October 2018. The bonds have a maturity of 10 years, with a fixed coupon rate of 4.84%. The Bank is entitled to redeem the bond at the end of the fifth year.

(11) The Bank issued tier 2 capital bonds in an amount of RMB30 billion on 20 September 2019. The bonds have a maturity of 10 years, with a fixed coupon rate of 3.98%. The Bank is entitled to redeem the bond at the end of the fifth year.

(12) The Bank issued tier 2 capital bonds in an amount of RMB10 billion on 20 September 2019. The bonds have a maturity of 15 years, with a fixed coupon rate of 4.34%. The Bank is entitled to redeem the bond at the end of the tenth year.

(13) The Bank issued tier 2 capital bonds in an amount of RMB30 billion on 20 November 2019. The bonds have a maturity of 10 years, with a fixed coupon rate of 4.01%. The Bank is entitled to redeem the bond at the end of the fifth year.

(14) The claims of the holders of subordinated bonds and tier 2 capital bonds will be subordinated to the claims of depositors and general creditors.

(15) US Dollar Debt Securities, RMB Debt Securities and other Debt Securities were issued in Chinese mainland, Hong Kong, Macao, Taiwan and other countries and regions between 2013 and 2019 by the Group, with dates of maturity ranging from 2020 to 2030.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

30 Bonds issued (Continued)

(16) The RMB negotiable certificates of deposit issued by the Bank in 2018 matured in 2019. The outstanding balance will mature in 2020.

(17) According to risk management policy, in order to match derivatives and reduce market risk, the Group designates some bonds issued as financial liabilities at fair value through profit or loss in the current period. As at 31 December 2019, the carrying amount of the above-mentioned bonds issued by the Group is RMB26,113 million (31 December 2018: RMB20,517 million), and the difference between the fair value and the amount that the Group would be contractually required to pay to the holders is not significant (31 December 2018: not significant). In the years of 2019 and 2018, there is no significant change in the Group's credit risk as well as the fair value caused by credit risk of the above financial liabilities.

(18) During the years ended 31 December 2019 and 2018, the Group did not default on any principal, interest or redemption amounts with respect to its bonds issued.

31 Other borrowings

These other borrowings relate to the financing of the aircraft leasing business of BOC Aviation Limited, a subsidiary of the Group. These other borrowings are secured by its aircraft (Note V.20).

As at 31 December 2019, these other borrowings had a maturity ranging from 150 days to 6 years and bore floating and fixed interest rates ranging from 2.14% to 3.26% (31 December 2018: 2.65% to 4.26%).

During the years ended 31 December 2019 and 2018, the Group did not default on any principal, interest or redemption amounts with respect to its other borrowings.

32 Current tax liabilities

	As at 31 December	
	2019	2018
Corporate income tax	**51,787**	20,626
Value-added tax	**6,039**	5,966
City construction and maintenance tax	**427**	431
Education surcharges	**297**	282
Other	**552**	589
Total	**59,102**	27,894

33 Retirement benefit obligations

As at 31 December 2019, the actuarial liabilities existing in relation to the retirement benefit obligations for employees who retired prior to 31 December 2003 and the early retirement obligations for employees who early-retired were RMB2,095 million (31 December 2018: RMB2,213 million) and RMB438 million (31 December 2018: RMB612 million), respectively, using the projected unit credit method.

The movements of the net liabilities recognised are as follows:

	Year ended 31 December	
	2019	2018
As at 1 January	**2,825**	3,027
Interest cost	**85**	110
Net actuarial (gains)/losses recognised	**(38)**	78
Benefits paid	**(339)**	(390)
As at 31 December	**2,533**	2,825

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

33 Retirement benefit obligations (Continued)

Primary assumptions used:

	As at 31 December	
	2019	2018
Discount rate		
— Normal retiree	**3.25%**	3.28%
— Early retiree	**2.50%**	2.90%
Pension benefit inflation rate		
— Normal retiree	**3.0%**	3.0%
— Early retiree	**4.0%–3.0%**	5.0%–3.0%
Medical benefit inflation rate	**8.0%**	8.0%
Retiring age		
— Male	**60**	60
— Female	**50/55**	50/55

Assumptions regarding future mortality experience are based on the China Life Insurance Mortality Table (published historical statistics in China).

As at 31 December 2019 and 2018, there was no significant change in employee retirement benefit obligations that was attributable to changes in actuarial assumptions.

34 Share appreciation rights plan

In November 2005, the Bank's Board of Directors and equity holders approved and adopted a Share Appreciation Rights Plan under which eligible participants, including directors, supervisors, management and other personnel designated by the Board, will be granted share appreciation rights, up to 25% of which will be exercisable each year beginning on the third anniversary date from the date of grant. The share appreciation rights will be valid for seven years from the date of grant. Eligible participants will be entitled to receive an amount equal to the difference, if any, between the average closing market price of the Bank's H shares in the ten days prior to the date of grant and the average closing market price of the Bank's H shares in the 12 months prior to the date of exercise as adjusted for any change in the Bank's equity. The plan provides cash-settled share-based payment only and accordingly, no shares will be issued under the share appreciation rights plan.

No share appreciation rights were granted since the inception of the plan.

35 Deferred income taxes

35.1 Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes are related to the same fiscal authority. The table below includes the deferred income tax assets and liabilities of the Group after offsetting qualifying amounts and the related temporary differences.

	As at 31 December			
	2019		2018	
	Temporary differences	**Deferred tax assets/ (liabilities)**	Temporary differences	Deferred tax assets/ (liabilities)
Deferred income tax assets	**166,707**	**44,029**	144,757	38,204
Deferred income tax liabilities	**(30,773)**	**(5,452)**	(25,729)	(4,548)
Net	**135,934**	**38,577**	119,028	33,656

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

35 Deferred income taxes (Continued)

35.2 Deferred income tax assets/liabilities and related temporary differences, before offsetting qualifying amounts, are attributable to the following items:

	As at 31 December			
	2019		2018	
	Temporary differences	Deferred tax assets/ (liabilities)	Temporary differences	Deferred tax assets/ (liabilities)
Deferred income tax assets				
Asset impairment allowances	**205,264**	**51,052**	184,629	45,993
Pension, retirement benefits and salary payables	**18,137**	**4,510**	18,371	4,582
Financial instruments at fair value through profit or loss and derivative financial instruments	**90,507**	**22,511**	89,473	22,327
Financial assets at fair value through other comprehensive income	**835**	**209**	5,386	1,059
Other temporary differences	**34,320**	**7,931**	30,132	6,889
Subtotal	**349,063**	**86,213**	327,991	80,850
Deferred income tax liabilities				
Financial instruments at fair value through profit or loss and derivative financial instruments	**(93,862)**	**(23,336)**	(112,457)	(28,114)
Financial assets at fair value through other comprehensive income	**(29,403)**	**(7,228)**	(17,028)	(4,174)
Depreciation of property and equipment	**(20,629)**	**(3,521)**	(18,909)	(3,208)
Revaluation of property and investment properties	**(8,986)**	**(1,712)**	(8,775)	(1,675)
Other temporary differences	**(60,249)**	**(11,839)**	(51,794)	(10,023)
Subtotal	**(213,129)**	**(47,636)**	(208,963)	(47,194)
Net	**135,934**	**38,577**	119,028	33,656

As at 31 December 2019, deferred tax liabilities relating to temporary differences of RMB156,105 million associated with the Group's investments in subsidiaries had not been recognised (31 December 2018: RMB142,076 million). Refer to Note II.20.2.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

35 Deferred income taxes (Continued)

35.3 The movements of the deferred income tax account are as follows:

	Year ended 31 December	
	2019	2018
As at 1 January	**33,656**	53,565
Credited/(charged) to the income statement (Note V.10)	**8,824**	(14,784)
Charged to other comprehensive income	**(4,180)**	(5,028)
Other	**277**	(97)
As at 31 December	**38,577**	33,656

35.4 The deferred income tax credit/charge in the income statement comprises the following temporary differences:

	Year ended 31 December	
	2019	2018
Asset impairment allowances	**5,059**	(219)
Financial instruments at fair value through profit or loss and derivative financial instruments	**4,962**	(10,337)
Pension, retirement benefits and salary payables	**(72)**	(91)
Other temporary differences	**(1,125)**	(4,137)
Total	**8,824**	(14,784)

36 Other liabilities

	As at 31 December	
	2019	2018
Insurance liabilities		
— Life insurance contracts	**113,742**	96,719
— Non-life insurance contracts	**10,169**	9,346
Items in the process of clearance and settlement	**66,628**	63,647
Salary and welfare payables(1)	**33,373**	30,997
Lease liabilities(2)	**21,590**	N/A
Provision(3)	**24,469**	22,010
Deferred income	**10,476**	9,264
Other	**84,726**	66,379
Total	**365,173**	298,362

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

36 Other liabilities (Continued)

(1) Salary and welfare payables

	As at 1 January 2019	Accrual	Payment	As at 31 December 2019
Salary, bonus and subsidy	**23,929**	**61,104**	**(61,368)**	**23,665**
Staff welfare	**–**	**3,896**	**(3,896)**	**–**
Social insurance				
— Medical	**1,136**	**4,085**	**(3,626)**	**1,595**
— Pension	**181**	**6,249**	**(6,271)**	**159**
— Annuity	**310**	**4,178**	**(2,347)**	**2,141**
— Unemployment	**7**	**207**	**(208)**	**6**
— Injury at work	**2**	**76**	**(76)**	**2**
— Maternity insurance	**3**	**256**	**(256)**	**3**
Housing funds	**56**	**4,595**	**(4,612)**	**39**
Labour union fee and staff education fee	**4,792**	**2,032**	**(1,688)**	**5,136**
Reimbursement for cancellation of labour contract	**17**	**15**	**(13)**	**19**
Other	**564**	**4,009**	**(3,965)**	**608**
Total[(i)]	**30,997**	**90,702**	**(88,326)**	**33,373**

	As at 1 January 2018	Accrual	Payment	As at 31 December 2018
Salary, bonus and subsidy	22,697	58,242	(57,010)	23,929
Staff welfare	–	3,583	(3,583)	–
Social insurance				
— Medical	1,029	3,644	(3,537)	1,136
— Pension	171	6,835	(6,825)	181
— Annuity	23	2,372	(2,085)	310
— Unemployment	7	206	(206)	7
— Injury at work	2	87	(87)	2
— Maternity insurance	3	243	(243)	3
Housing funds	31	4,628	(4,603)	56
Labour union fee and staff education fee	4,368	1,941	(1,517)	4,792
Reimbursement for cancellation of labour contract	16	13	(12)	17
Other	536	3,512	(3,484)	564
Total[(i)]	28,883	85,306	(83,192)	30,997

(i) There was no overdue payment for staff salary and welfare payables as at 31 December 2019 and 2018.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

36 Other liabilities (Continued)

(2) Lease liabilities

The Group's lease liabilities are analysed by the maturity date — undiscounted analysis

	As at 31 December	
	2019	2018
Less than 1 year	**6,307**	N/A
Between 1 to 5 years	**12,965**	N/A
Over 5 years	**8,860**	N/A
Undiscounted lease liabilities	**28,132**	N/A
Lease liabilities	**21,590**	N/A

(3) Provision

	As at 31 December	
	2019	2018
Allowance for credit commitments	**23,597**	21,354
Allowance for litigation losses (Note V. 41.1)	**872**	656
Total	**24,469**	22,010

The movement of the provision was as follows:

	Year ended 31 December	
	2019	2018
As at 1 January	**22,010**	32,177
Losses/(reversal) for the year	**2,423**	(10,120)
Utilised during the year	**(90)**	(413)
Exchange differences and other	**126**	366
As at 31 December	**24,469**	22,010

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

37 Share capital, capital reserve, treasury shares and other equity instruments

37.1 Share capital

The Bank's share capital is as follows:

Unit: Share

	As at 31 December	
	2019	2018
Domestic listed A shares, par value RMB1.00 per share	**210,765,514,846**	210,765,514,846
Overseas listed H shares, par value RMB1.00 per share	**83,622,276,395**	83,622,276,395
Total	**294,387,791,241**	294,387,791,241

All A and H shares rank pari passu with the same rights and benefits.

37.2 Capital reserve

	As at 31 December	
	2019	2018
Share premium	**133,716**	139,921
Other capital reserve	**2,296**	2,214
Total	**136,012**	142,135

37.3 Treasury shares

A wholly-owned subsidiary of the Group holds certain listed shares of the Bank in relation to its derivative business. These shares are treated as treasury shares, a deduction from equity holders' equity. Gains and losses on sale or redemption of the treasury shares are credited or charged to equity. The total number of treasury shares as at 31 December 2019 was approximately 2.34 million (31 December 2018: approximately 22.80 million).

37.4 Other equity instruments

For the year ended 31 December 2019, the movements of the Bank's other equity instruments were as follows:

	As at 1 January 2019		Increase/(Decrease)		As at 31 December 2019	
	Quantity (million shares)	Carrying amount	Quantity (million shares)	Carrying amount	Quantity (million shares)	Carrying amount
Preference Shares						
Offshore Preference Shares[(1)]	399.4	39,782	(399.4)	(39,782)	–	–
Domestic Preference Shares (First Tranche)[(2)]	320.0	31,963	–	–	320.0	31,963
Domestic Preference Shares (Second Tranche)[(3)]	280.0	27,969	–	–	280.0	27,969
Domestic Preference Shares (Third Tranche)[(4)]	–	–	730.0	72,979	730.0	72,979
Domestic Preference Shares (Fourth Tranche)[(5)]	–	–	270.0	26,990	270.0	26,990
Subtotal	999.4	99,714	600.6	60,187	1,600.0	159,901
Perpetual Bonds						
Undated Capital Bonds[(6)]	–	–	–	39,992	–	39,992
Total		99,714		100,179		199,893

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

37 Share capital, capital reserve, treasury shares and other equity instruments (Continued)

37.4 Other equity instruments (Continued)

(1) With the approvals by relevant regulatory authorities in China, the Bank redeemed all Offshore Preference Shares on 23 October 2019, at the USD equivalent amount (being the RMB amount that would be due under the Offshore Preference Shares as converted into USD using the fixed exchange rate of USD1.00 to CNY6.1448) of the redemption price of each Offshore Preference Share (including the dividends declared but remain undistributed on such Offshore Preference Shares for the current dividend period). The USD equivalent amount of the redemption price of all Offshore Preference Shares was USD6.939 billion.

(2) With the approvals by relevant regulatory authorities in China, the Bank issued 6.0% non-cumulative Domestic Preference Shares on 21 November 2014, in the aggregate par value of RMB32 billion. Each Domestic Preference Share has a par value of RMB100 and a total number of 320 million Domestic Preference Shares were issued.

The Domestic Preference Shares have no maturity date. However, subject to the satisfaction of the redemption conditions and having obtained the prior approval of the CBIRC, the Bank may at its discretion redeem all or part of the Domestic Preference Shares on 21 November 2019 or any dividend payment date thereafter at the redemption price which is the sum of the par value of the Domestic Preference Share and the dividends declared but not yet distributed.

(3) With the approvals by relevant regulatory authorities in China, the Bank issued 5.5% non-cumulative Domestic Preference Shares on 13 March 2015, in the aggregate par value of RMB28 billion. Each Domestic Preference Share has a par value of RMB100 and a total number of 280 million Domestic Preference Shares were issued.

The Domestic Preference Shares have no maturity date. However, subject to the satisfaction of the redemption conditions and having obtained the prior approval of the CBIRC, the Bank may at its discretion redeem all or part of the Domestic Preference Shares on 13 March 2020 or any dividend payment date thereafter at the redemption price which is the sum of the par value of the Domestic Preference Share and the dividends declared but not yet distributed.

(4) With the approvals by relevant regulatory authorities in China, the Bank issued non-cumulative Domestic Preference Shares on 24 June 2019, in the aggregate par value of RMB73 billion. Each Domestic Preference Share has a par value of RMB100 and a total number of 730 million Domestic Preference Shares were issued. The dividend rate of the Preference Shares for the first five years is 4.50%, resetting every 5 years.

The Domestic Preference Shares have no maturity date. However, subject to the satisfaction of the redemption conditions and having obtained the prior approval of the CBIRC, the Bank may at its discretion redeem all or part of the Domestic Preference Shares on 27 June 2024 or any dividend payment date thereafter at the redemption price which is the sum of the par value of the Domestic Preference Share and the dividends declared but not yet distributed.

(5) With the approvals by relevant regulatory authorities in China, the Bank issued non-cumulative Domestic Preference Shares on 26 August 2019, in the aggregate par value of RMB27 billion. Each Domestic Preference Share has a par value of RMB100 and a total number of 270 million Domestic Preference Shares were issued. The dividend rate of the Preference Shares for the first five years is 4.35%, resetting every 5 years.

The Domestic Preference Shares have no maturity date. However, subject to the satisfaction of the redemption conditions and having obtained the prior approval of the CBIRC, the Bank may at its discretion redeem all or part of the Domestic Preference Shares on 29 August 2024 or any dividend payment date thereafter at the redemption price which is the sum of the par value of the Domestic Preference Share and the dividends declared but not yet distributed.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

37 Share capital, capital reserve, treasury shares and other equity instruments (Continued)

37.4 Other equity instruments (Continued)

Save for such dividend at the agreed dividend payout ratio, the holders of the above preference shares shall not be entitled to share in the distribution of the remaining profits of the Bank together with the holders of the ordinary shares. The above preference shares are paid by non-cumulative dividend. The Bank shall be entitled to cancel any dividend on the preference shares, and such cancellation shall not constitute a default. However, the Bank shall not distribute profits to ordinary shareholders until resumption of full payment of dividends on the preference shares. Upon the occurrence of a trigger event for the compulsory conversion of preference shares into ordinary shares per agreement, the Bank shall convert the preference shares into ordinary shares in whole or in part after reporting to CBIRC for its examination and approval decision.

Capital raised from the issuance of the above preference shares, after deduction of transaction costs, was wholly used to replenish the Bank's additional tier 1 capital and to increase its capital adequacy ratio.

(6) With the approvals by relevant regulatory authorities in China, the Bank issued RMB40 billion write-down undated capital bonds (the "Bonds") in the domestic interbank bond market on 25 January 2019, and completed the issuance on 29 January 2019. The denomination of the Bonds is RMB100 each, and the annual coupon rate of the Bonds for the first five years is 4.50%, resetting every 5 years.

The duration of the Bonds is the same as the continuing operation of the Bank. Subject to the satisfaction of the redemption conditions and having obtained the prior approval of the CBIRC, the Bank may redeem the Bonds in whole or in part on each distribution payment date 5 years after the issuance date of the Bonds. Upon the occurrence of a trigger event for write-downs, with the consent of the CBIRC and without the consent of the bondholders, the Bank has the right to write down all or part of the above Bonds issued and existing at that time in accordance with the total par value. The claims of the holders of the Bonds will be subordinated to the claims of depositors, general creditors and subordinated creditors; and shall rank in priority to the claims of shareholders and will rank pari passu with the claims under any other additional tier 1 capital instruments of the Bank that rank pari passu with the Bonds.

The Bonds are paid by non-cumulative interest. The Bank shall have the right to cancel distributions on the Bonds in whole or in part and such cancellation shall not constitute a default. The Bank may at its discretion utilize the proceeds from the cancelled distribution to meet other obligations of maturing debts. But the Bank shall not distribute profits to ordinary shareholders until the resumption of full interest payment.

Capital raised from the issuance of the Bonds, after deduction of transaction costs, was wholly used to replenish the Bank's additional tier 1 capital and to increase its capital adequacy ratio.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

38 Statutory reserves, general and regulatory reserves and undistributed profits

38.1 Statutory reserves

Under relevant PRC laws, the Bank is required to transfer 10% of its net profit to non-distributable statutory surplus reserves. The appropriation to the statutory surplus reserves may cease when the balance of such reserves has reached 50% of the share capital. Subject to the approval of the equity holders, the statutory surplus reserves can be used for replenishing the accumulated losses or increasing the Bank's share capital. The statutory surplus reserves amount used to increase the share capital is limited to a level where the balance of the statutory surplus reserves after such capitalisation is not less than 25% of the share capital.

In accordance with a resolution of the Board of Directors dated 27 March 2020, the Bank appropriated 10% of the net profit for the year ended 31 December 2019 to the statutory surplus reserves, amounting to RMB16,576 million (2018: RMB15,946 million).

In addition, some operations in Hong Kong, Macao, Taiwan and other countries and regions are required to transfer certain percentages of their net profits to the statutory surplus reserves as stipulated by local banking authorities.

38.2 General and regulatory reserves

Pursuant to Caijin [2012] No. 20 *Requirements on Impairment Allowance for Financial Institutions* (the "Requirement"), issued by the MOF, in addition to the impairment allowance, the Bank establishes a general reserve within the equity holders' equity through the appropriation of profit to address unidentified potential impairment losses. The general reserve as a distribution of profits, being part of the owner's rights and interests, should not be less than 1.5% of the aggregate amount of risk assets as defined by the Requirement, and the minimum threshold can be accumulated over a period of no more than five years.

In accordance with a resolution dated 27 March 2020 and on the basis of the Bank's profit for the year ended 31 December 2019, the Board of Directors of the Bank approved the appropriation of RMB17,863 million to the general reserve for the year ended 31 December 2019 (2018: RMB22,352 million).

The regulatory reserve mainly refers to the reserve amount set aside by BOC Hong Kong (Group) Limited ("BOCHK Group"), a subsidiary of the Group, for general banking risks, including future losses or other unforeseeable risks. As at 31 December 2019 and 2018, the reserve amounts set aside by BOCHK Group were RMB6,773 million and RMB6,448 million, respectively.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

38 Statutory reserves, general and regulatory reserves and undistributed profits (Continued)

38.3 Dividends

Dividends for Ordinary Shares

An ordinary share dividend of RMB54,167 million in respect of the profit for the year ended 31 December 2018 was approved by the equity holders of the Bank at the Annual General Meeting held on 17 May 2019 and was distributed during the year.

An ordinary share dividend of RMB0.191 per share in respect of the profit for the year ended 31 December 2019 (2018: RMB0.184 per share), amounting to a total dividend of RMB56,228 million, based on the number of shares issued as at 31 December 2019 will be proposed for approval at the Annual General Meeting to be held on 30 June 2020. The dividend payable is not reflected in liabilities of the financial statements.

Dividends for Preference Shares

The dividend distribution of Domestic Preference Shares (Second Tranche) amounting to RMB1,540 million was approved by the Board of Directors of the Bank at the Board Meeting held on 25 January 2019 and the dividend of Domestic Preference Shares (Second Tranche) was distributed on 13 March 2019.

The dividend distribution of Offshore Preference Shares and Domestic Preference Shares (First Tranche) was approved by the Board of Directors of the Bank at the Board Meeting held on 30 August 2019. The dividend of Offshore Preference Shares amounting to USD487 million before tax was distributed on 23 October 2019. The dividend of Domestic Preference Shares (First Tranche) amounting to RMB1,920 million was distributed on 21 November 2019.

39 Non-controlling interests

Non-controlling interests of the subsidiaries of the Group are as follows:

	As at 31 December	
	2019	2018
BOC Hong Kong (Group) Limited	**96,257**	87,689
Bank of China Group Investment Limited	**10,531**	9,440
Tai Fung Bank Limited	**10,180**	9,034
Other	**8,027**	6,254
Total	**124,995**	112,417

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

40 Changes in consolidation

On 1 July 2019, the Bank set up a wholly-owned subsidiary, BOC Wealth Management Co., Ltd. ("BOC Wealth Management"), which mainly engages in the issuance of wealth management products, investment and management of entrusted assets for investors. As at 31 December 2019, the Bank held 100% of the total capital of BOC Wealth Management.

41 Contingent liabilities and commitments

41.1 Legal proceedings and arbitrations

As at 31 December 2019, the Group was involved in certain litigation and arbitration cases in the regular course of its business. In addition, in terms of the range and scale of its international operations, the Group may face a variety of legal proceedings within different jurisdictions. As at 31 December 2019, provisions of RMB872 million (31 December 2018: RMB656 million) were made based on court judgements or the advice of counsel (Note V.36). After consulting legal professionals, the senior management of the Group believes that at the current stage these legal proceedings and arbitrations will not have a material impact on the financial position or operations of the Group.

41.2 Assets pledged

Assets pledged by the Group as collateral mainly for placement, repurchase, short positions, derivative transactions with other banks and financial institutions and for local statutory requirements are set forth in the table below. These transactions are conducted under standard and normal business terms.

	As at 31 December	
	2019	2018
Debt securities	**787,929**	990,743
Bills	**387**	1,603
Total	**788,316**	992,346

41.3 Collateral accepted

The Group accepts securities as collateral that are permitted to be sold or re-pledged in connection with reverse repurchase and derivative agreements with banks and other financial institutions. As at 31 December 2019, the fair value of collateral received from banks and other financial institutions accepted by the Group amounted to RMB22,067 million (31 December 2018: RMB27,218 million). As at 31 December 2019, the fair value of the collateral that the Group had sold or re-pledged, but was obligated to return, was RMB2,271 million (31 December 2018: RMB2,631 million). These transactions are conducted under standard terms in the normal course of business.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

41 Contingent liabilities and commitments (Continued)

41.4 Capital commitments

	As at 31 December	
	2019	2018
Property and equipment		
— Contracted but not provided for	**53,752**	64,650
— Authorised but not contracted for	**1,215**	1,597
Intangible assets		
— Contracted but not provided for	**1,048**	934
— Authorised but not contracted for	**66**	25
Investment properties		
— Contracted but not provided for	**1,231**	7
Total	**57,312**	67,213

41.5 Operating leases

The Group acts as lessor in operating leases principally through aircraft leasing undertaken by its subsidiary BOC Aviation Limited. Under irrevocable operating lease contracts, as at 31 December 2019, the minimum lease payments which will be received by the Group under the operating leases for existing aircraft and aircraft yet to be delivered amounted to RMB12,763 million not later than one year (31 December 2018: RMB11,753 million), RMB51,384 million later than one year and not later than five years (31 December 2018: RMB47,494 million) and RMB50,746 million later than five years (31 December 2018: RMB50,248 million).

41.6 Treasury bonds redemption commitments

The Bank is entrusted by the MOF to underwrite certain Treasury bonds. The investors of these Treasury bonds have a right to redeem the bonds at any time prior to maturity and the Bank is committed to redeem these Treasury bonds. The MOF will not provide funding for the early redemption of these Treasury bonds on a back-to-back basis but will pay interest and repay the principal at maturity. The redemption price is the principal value of the bonds plus unpaid interest in accordance with the early redemption arrangement.

As at 31 December 2019, the outstanding principal value of the Treasury bonds sold by the Bank under obligation to redeem prior to maturity amounted to RMB59,746 million (31 December 2018: RMB52,635 million). The original maturities of these Treasury bonds vary from 3 to 5 years and management expects the amount of redemption through the Bank prior to the maturity dates of these bonds will not be material.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

41 Contingent liabilities and commitments (Continued)

41.7 Credit commitments

	As at 31 December	
	2019	2018
Loan commitments[1]		
— with an original maturity of less than 1 year	**244,733**	186,425
— with an original maturity of 1 year or over	**1,360,065**	1,127,891
Undrawn credit card limits	**1,010,283**	954,394
Letters of guarantee issued[2]	**1,049,629**	1,070,825
Bank bill acceptance	**259,373**	256,360
Letters of credit issued	**133,571**	130,625
Accepted bills of exchange under letters of credit	**92,440**	98,849
Other	**192,476**	167,642
Total[3]	**4,342,570**	3,993,011

(1) Loan commitments mainly represent undrawn loan facilities agreed and granted to customers. Unconditionally revocable loan commitments are not included in loan commitments. As at 31 December 2019, the unconditionally revocable loan commitments of the Group amounted to RMB299,556 million (31 December 2018: RMB254,033 million).

(2) Letters of guarantee issued mainly include financial guarantees and performance guarantees. These obligations on the Group to make payment are dependent on the outcome of a future event.

(3) Risk-weighted assets for credit risk of credit commitments

The risk-weighted assets for credit risk of the Group are calculated in accordance with the *Capital Rules for Commercial Banks (Provisional)* and other relevant regulations under the advanced capital measurement approaches. The amounts are determined by the creditworthiness of the counterparties, the maturity characteristics of each type of contract and other factors.

	As at 31 December	
	2019	2018
Credit commitments	**1,206,469**	1,102,554

41.8 Underwriting obligations

As at 31 December 2019, there was no firm commitment in underwriting securities of the Group (31 December 2018: Nil).

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

42 Note to the consolidated statement of cash flows

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise the following balances with an original maturity of less than three months:

	As at 31 December	
	2019	2018
Cash and due from banks and other financial institutions	**347,724**	264,526
Balances with central banks	**541,837**	728,940
Placements with and loans to banks and other financial institutions	**393,674**	638,472
Financial investments	**62,657**	56,662
Total	**1,345,892**	1,688,600

43 Related party transactions

43.1 CIC was established on 29 September 2007 with registered capital of RMB1,550 billion. CIC is a wholly State-owned company engaging in foreign currency investment management. The Group is subject to the control of the State Council of the PRC government through CIC and its wholly owned subsidiary, Huijin.

The Group enters into banking transactions with CIC in the normal course of its business on commercial terms.

43.2 Transactions with Huijin and companies under Huijin

(1) General information of Huijin

Central Huijin Investment Ltd.

Legal representative	PENG Chun
Registered capital	RMB828,209 million
Location of registration	Beijing
Capital shares in the Bank	64.02%
Voting rights in the Bank	64.02%
Nature	Wholly State-owned company
Principal activities	Investment in major State-owned financial institutions on behalf of the State Council; other related businesses approved by the State Council
Unified social credit code	911000007109329615

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

43 Related party transactions (Continued)

43.2 Transactions with Huijin and companies under Huijin (Continued)

(2) *Transactions with Huijin*

The Group enters into banking transactions with Huijin in the normal course of its business on commercial terms. Purchase of the bonds issued by Huijin was in the ordinary course of business and in compliance with the requirements of the related regulations and corporate governance.

Transaction balances

	As at 31 December	
	2019	2018
Debt securities	**24,963**	18,511
Due to Huijin	**(2,913)**	(9,254)

Transaction amount

	Year ended 31 December	
	2019	2018
Interest income	**987**	701
Interest expense	**(320)**	(259)

(3) *Transactions with companies under Huijin*

Companies under Huijin include its equity interests in subsidiaries, associates and joint ventures in certain other bank and non-bank entities in the PRC. The Group enters into banking transactions with these companies in the normal course of business on commercial terms which include mainly the purchase and sale of debt securities, money market transactions and derivative transactions.

In the ordinary course of the business, main transactions that the Group entered into with the affiliates of parent company are as follows:

Transaction balances

	As at 31 December	
	2019	2018
Due from banks and other financial institutions	**59,332**	19,184
Placements with and loans to banks and other financial institutions	**115,781**	98,754
Financial investments	**395,205**	375,075
Derivative financial assets	**7,655**	10,874
Loans and advances to customers	**45,646**	32,275
Due to customers, banks and other financial institutions	**(185,610)**	(164,636)
Placements from banks and other financial institutions	**(244,059)**	(124,456)
Derivative financial liabilities	**(5,459)**	(6,434)
Credit commitments	**14,502**	12,159

Transaction amount

	Year ended 31 December	
	2019	2018
Interest income	**17,021**	12,709
Interest expense	**(9,679)**	(6,499)

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

43 Related party transactions (Continued)

43.2 Transactions with Huijin and companies under Huijin (Continued)

(3) Transactions with companies under Huijin (Continued)

Interest rate ranges

	As at 31 December	
	2019	2018
Due from banks and other financial institutions	**0.00%–5.00%**	0.00%–8.20%
Placements with and loans to banks and other financial institutions	**-0.20%–4.50%**	-0.10%–8.00%
Financial investments	**0.00%–5.98%**	0.00%–6.20%
Loans and advances to customers	**1.44%–6.05%**	1.45%–6.18%
Due to customers, banks and other financial institutions	**0.00%–3.58%**	0.00%–6.10%
Placements from banks and other financial institutions	**-0.55%–9.50%**	-0.10%–9.50%

43.3 Transactions with government authorities, agencies, affiliates and other State-controlled entities

The State Council of the PRC government directly and indirectly controls a significant number of entities through its government authorities, agencies, affiliates and other State-controlled entities. The Group enters into extensive banking transactions with these entities in the normal course of business on commercial terms.

Transactions conducted with government authorities, agencies, affiliates and other State-controlled entities include purchase and redemption of investment securities issued by government agencies, underwriting and distribution of Treasury bonds issued by government agencies through the Group's branch network, foreign exchange transactions and derivative transactions, lending, provision of credit and guarantees and deposit placing and taking.

43.4 Transactions with associates and joint ventures

The Group enters into banking transactions with associates and joint ventures in the normal course of business on commercial terms. These include loans and advances, deposit taking and other normal banking businesses. In the ordinary course of the business, the main transactions that the Group entered into with associates and joint ventures are as follows:

Transaction balances

	As at 31 December	
	2019	2018
Loans and advances to customers	**1,373**	763
Due to customers, banks and other financial institutions	**(6,046)**	(4,709)
Credit commitments	**76**	43

Transaction amount

	Year ended 31 December	
	2019	2018
Interest income	**41**	22
Interest expense	**(220)**	(204)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

43 Related party transactions (Continued)

43.4 Transactions with associates and joint ventures (Continued)

The general information of principal associates and joint ventures is as follows:

Name	Place of incorporation/ establishment	Unified Social Credit Code	Effective equity held (%)	Voting right (%)	Paid-in capital (in millions)	Principal business
BOC International (China) Co., Ltd.	PRC	91310000736650364G	37.14	37.14	RMB2,500	Securities brokerage; securities investment consulting; financial advisory services related to securities trading and securities investment activities; securities underwriting and sponsorship; securities proprietary business; securities asset management; securities investment fund sales agency; margin financing and securities lending; distribution of financial products; management of publicly raised securities investment funds
Ying Kou Port Group CORP.	PRC	91210800121119657C	8.86	Note (1)	RMB20,000	Terminals and other port facilities services, cargo handling, warehousing services, ship and port services, leasing and maintenance services of port facilities and equipment and port machinery, etc.
CGN Phase I Private Equity Fund Company Limited	PRC	91110000717827478Q	20.00	20.00	RMB100	Investment in nuclear power projects and related industries; Asset management; Investment consulting
Graceful Field Worldwide Limited	BVI	N/A	80.00	Note (1)	USD0.0025	Investment
Sichuan Lutianhua Co., Ltd.	PRC	91510500711880825C	16.44	Note (1)	RMB1,568	Chemical industry, mainly produces and sells all kinds of fertilizers and chemical products
Zhongxinboda (Wuhu) Investment Limited Partnership	PRC	91340202MA2N9TTA6R	25.50	25.50	N/A	Asset management; Investment consulting
Wkland Investments II Limited	BVI	N/A	50.00	50.00	USD0.00002	Investment holding
Livi VB Limited	HK	N/A	29.13	44.00	HKD2,500	Internet finance
Wuhu Yuanzhong Jiaying Investment Limited Partnership	PRC	91340202MA2TBMDD6Q	70.00	Note (1)	N/A	Investment consulting; Equity investment
Guangdong Small and Medium Enterprises Equity Investment Fund Company Limited	PRC	91440000564568961E	40.00	40.00	RMB1,578	Investment

(1) In accordance with the respective articles of association, the Group has significant influence or joint control over these companies.

43.5 Transactions with the Annuity Plan

Apart from the obligations for defined contributions to the Annuity Fund and normal banking transactions, no other transactions were conducted between the Group and the Annuity Fund for the years ended 31 December 2019 and 2018.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

43 Related party transactions (Continued)

43.6 Transactions with key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including Directors and Executive Officers.

The Group enters into banking transactions with key management personnel in the normal course of business. During the years ended 31 December 2019 and 2018, there were no material transactions and balances with key management personnel on an individual basis.

The key management compensation for the years ended 31 December 2019 and 2018 comprises:

	Year ended 31 December	
	2019	2018
Compensation for short-term employment benefits[1]	**9**	13
Compensation for post-employment benefits	**1**	1
Total	**10**	14

(1) The total compensation package for these key management personnel for the year ended 31 December 2019 has not yet been finalised in accordance with the regulations of the PRC relevant authorities. The amount of the compensation not provided for is not expected to have a significant impact on the Group's 2019 financial statements. The final compensation will be disclosed in a separate announcement when determined.

43.7 Transactions with Connected Natural Persons

As at 31 December 2019, the Bank's balance of loans to the connected natural persons as defined in the *Administration of Connected Transactions between Commercial Banks and Their Insiders and Shareholders* and *the Administrative Measures for the Disclosure of Information of Listed Companies* totalled approximately RMB410 million (31 December 2018: RMB168 million) and RMB23 million (31 December 2018: RMB21 million) respectively.

43.8 Transactions with subsidiaries

The main transactions with subsidiaries are as follows:

Transaction balances

	As at 31 December	
	2019	2018
Due from banks and other financial institutions	**21,908**	44,911
Placements with and loans to banks and other financial institutions	**152,839**	127,644
Due to banks and other financial institutions	**(88,195)**	(87,797)
Placements from banks and other financial institutions	**(52,285)**	(76,215)

Transaction amount

	Year ended 31 December	
	2019	2018
Interest income	**1,569**	1,465
Interest expense	**(2,165)**	(2,825)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

43 Related party transactions (Continued)

43.8 Transactions with subsidiaries (Continued)

The general information of principal subsidiaries is as follows:

Name	Place of incorporation and operation	Date of incorporation/ establishment	Paid-in capital (in millions)	Effective equity held (%)	Voting right (%)	Principal business
Directly held[1]						
BOC Hong Kong (Group) Limited	Hong Kong	12 September 2001	HKD34,806	100.00	100.00	Holding company
BOC International Holdings Limited[3]	Hong Kong	10 July 1998	HKD3,539	100.00	100.00	Investment banking
Bank of China Group Insurance Company Limited	Hong Kong	23 July 1992	HKD3,749	100.00	100.00	Insurance services
Bank of China Group Investment Limited	Hong Kong	18 May 1993	HKD34,052	100.00	100.00	Investment holding
Tai Fung Bank Limited	Macao	1942	MOP1,000	50.31	50.31	Commercial banking
Bank of China (UK) Limited	United Kingdom	24 September 2007	GBP250	100.00	100.00	Commercial banking
BOC Insurance Company Limited	Beijing	5 January 2005	RMB4,535	100.00	100.00	Insurance services
BOC Financial Asset Investment Company Limited	Beijing	16 November 2017	RMB10,000	100.00	100.00	Debt-to-equity swaps and other supporting businesses, etc.
BOC Wealth Management Co., Ltd.	Beijing	1 July 2019	RMB10,000	100.00	100.00	Issuance of wealth management products, investment and management of entrusted assets for investors
Indirectly held						
BOC Hong Kong (Holdings) Limited[2]	Hong Kong	12 September 2001	HKD52,864	66.06	66.06	Holding company
Bank of China (Hong Kong) Limited[3]	Hong Kong	16 October 1964	HKD43,043	66.06	100.00	Commercial banking
BOC Credit Card (International) Limited	Hong Kong	9 September 1980	HKD480	66.06	100.00	Credit card services
BOC Group Trustee Company Limited[3]	Hong Kong	1 December 1997	HKD200	77.60	100.00	Provision of trustee services
BOC Aviation Limited[2]	Singapore	25 November 1993	USD1,158	70.00	70.00	Aircraft leasing

(1) These directly held principal subsidiaries are unlisted companies. All holdings are in the ordinary share capital of the undertaking concerned, and the ability of the subsidiaries to transfer funds to the Group and the Bank is not restricted.

(2) BOCHK (Holdings) and BOC Aviation Limited are listed on the Stock Exchange of Hong Kong Limited.

(3) BOCHK and BOC International Holdings Limited ("BOCI"), in which the Group holds 66.06% and 100% of their equity interests, respectively, hold 66% and 34% equity interest of BOC Group Trustee Company Limited, respectively.

For certain subsidiaries listed above, the voting rights ratio is not equal to the effective equity held ratio, mainly due to the impact of the indirect holdings.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 Segment reporting

The Group manages the business from both geographic and business perspectives. From the geographic perspective, the Group operates in three principal regions: Chinese mainland; Hong Kong, Macao and Taiwan; and other countries and regions. From the business perspective, the Group provides services through six main business segments: corporate banking, personal banking, treasury operations, investment banking, insurance and other operations.

The measurement of segment assets, liabilities, income, expenses, results and capital expenditure is based on the Group's accounting policies. The segment information presented includes items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Funding is provided to and from individual business segments through treasury operations as part of the asset and liability management process. The pricing of these transactions is based on market rates. The transfer price takes into account the specific features and maturities of the product. Internal transactions are eliminated on consolidation. The Group regularly examines the transfer price and adjusts the price to reflect the current situation.

Geographical segments

Chinese mainland — Corporate banking, personal banking, treasury operations, insurance services, etc. are performed in the Chinese mainland.

Hong Kong, Macao and Taiwan — Corporate banking, personal banking, treasury operations, investment banking and insurance services are performed in Hong Kong, Macao and Taiwan. The business of this segment is centralised in BOCHK Group.

Other countries and regions — Corporate and personal banking services are provided in other countries and regions. Significant locations include New York, London, Singapore and Tokyo.

Business segments

Corporate banking — Services to corporate customers, government authorities and financial institutions, including current accounts, deposits, overdrafts, loans, trade-related products and other credit facilities, foreign exchange, derivative products and wealth management products.

Personal banking — Services to retail customers including savings deposits, personal loans, credit cards and debit cards, payments and settlements, wealth management products and funds and insurance agency services.

Treasury operations — Consisting of foreign exchange transactions, customer-based interest rate and foreign exchange derivative transactions, money market transactions, proprietary trading and asset and liability management. The results of this segment include the inter-segment funding income and expenses, results from interest-bearing assets and liabilities; and foreign currency translation gains and losses.

Investment banking — Consisting of debt and equity underwriting and financial advisory, sales and trading of securities, stock brokerage, investment research and asset management services, and private equity investment services.

Insurance — Underwriting of general and life insurance business and insurance agency services.

Other — Other operations of the Group comprise investment holding and other miscellaneous activities, none of which constitutes a separately reportable segment.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 Segment reporting (Continued)

As at and for the year ended 31 December 2019

		Hong Kong, Macao and Taiwan					
	Chinese mainland	BOCHK Group	Other	Subtotal	Other countries and regions	Elimination	Total
Interest income	629,451	57,763	38,874	96,637	50,527	(34,408)	742,207
Interest expense	(310,586)	(23,679)	(33,123)	(56,802)	(35,042)	34,473	(367,957)
Net interest income	318,865	34,084	5,751	39,835	15,485	65	374,250
Fee and commission income	82,062	12,745	7,401	20,146	6,599	(3,890)	104,917
Fee and commission expense	(9,878)	(3,703)	(2,135)	(5,838)	(2,125)	2,536	(15,305)
Net fee and commission income	72,184	9,042	5,266	14,308	4,474	(1,354)	89,612
Net trading gains	13,405	7,564	4,720	12,284	2,874	–	28,563
Net gains on transfers of financial asset	2,541	725	83	808	128	–	3,477
Other operating income[(1)]	13,274	18,870	22,497	41,367	204	(737)	54,108
Operating income	420,269	70,285	38,317	108,602	23,165	(2,026)	550,010
Operating expenses[(1)]	(140,920)	(32,586)	(18,802)	(51,388)	(7,686)	1,725	(198,269)
Impairment losses on assets	(101,010)	(1,780)	351	(1,429)	286	–	(102,153)
Operating profit	178,339	35,919	19,866	55,785	15,765	(301)	249,588
Share of results of associates and joint ventures	(1)	(78)	1,136	1,058	–	–	1,057
Profit before income tax	178,338	35,841	21,002	56,843	15,765	(301)	250,645
Income tax expense							(48,754)
Profit for the year							201,891
Segment assets	17,915,544	2,673,071	1,528,724	4,201,795	2,062,659	(1,433,464)	22,746,534
Investment in associates and joint ventures	7,992	1,076	14,142	15,218	–	–	23,210
Total assets	17,923,536	2,674,147	1,542,866	4,217,013	2,062,659	(1,433,464)	22,769,744
Include: non-current assets[(2)]	119,684	30,670	162,255	192,925	9,788	(2,851)	319,546
Segment liabilities	16,413,115	2,428,157	1,397,456	3,825,613	1,987,643	(1,433,323)	20,793,048
Other segment items:							
Intersegment net interest (expense)/income	(6,817)	1,401	11,164	12,565	(5,813)	65	–
Intersegment net fee and commission income/(expense)	592	180	1,106	1,286	(523)	(1,355)	–
Capital expenditure	13,231	2,123	27,977	30,100	613	–	43,944
Depreciation and amortisation	17,295	1,768	5,688	7,456	785	(181)	25,355
Credit commitments	3,675,635	313,084	131,772	444,856	528,004	(305,925)	4,342,570

(1) Other operating income includes insurance premium income earned, and operating expenses include insurance benefits and claims.

(2) Non-current assets include property and equipment, investment properties, right-of-use assets and other long-term assets.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 Segment reporting (Continued)

As at and for the year ended 31 December 2018

		Hong Kong, Macao and Taiwan			Other		
	Chinese mainland	BOCHK Group	Other	Subtotal	countries and regions	Elimination	Total
Interest income	587,134	50,368	38,798	89,166	48,106	(36,506)	687,900
Interest expense	(283,189)	(18,318)	(32,017)	(50,335)	(31,176)	36,506	(328,194)
Net interest income	303,945	32,050	6,781	38,831	16,930	–	359,706
Fee and commission income	77,836	12,612	6,691	19,303	6,169	(3,311)	99,997
Fee and commission expense	(7,642)	(3,559)	(1,661)	(5,220)	(1,802)	1,875	(12,789)
Net fee and commission income	70,194	9,053	5,030	14,083	4,367	(1,436)	87,208
Net trading (losses)/gains	(83)	2,322	2,444	4,766	2,036	–	6,719
Net gains/(losses) on transfers of financial asset	2,859	17	(69)	(52)	10	–	2,817
Other operating income(1)	16,129	14,600	17,746	32,346	234	(1,353)	47,356
Operating income	393,044	58,042	31,932	89,974	23,577	(2,789)	503,806
Operating expenses(1)	(131,958)	(23,322)	(16,634)	(39,956)	(6,967)	1,902	(176,979)
Impairment losses on assets	(98,872)	(1,048)	(66)	(1,114)	692	–	(99,294)
Operating profit	162,214	33,672	15,232	48,904	17,302	(887)	227,533
Share of results of associates and joint ventures	10	(12)	2,112	2,100	–	–	2,110
Profit before income tax	162,224	33,660	17,344	51,004	17,302	(887)	229,643
Income tax expense							(37,208)
Profit for the year							192,435
Segment assets	16,925,075	2,553,366	1,627,527	4,180,893	2,009,680	(1,871,742)	21,243,906
Investment in associates and joint ventures	7,231	164	15,974	16,138	–	–	23,369
Total assets	16,932,306	2,553,530	1,643,501	4,197,031	2,009,680	(1,871,742)	21,267,275
Include: non-current assets(2)	100,098	27,719	143,779	171,498	5,837	(161)	277,272
Segment liabilities	15,625,811	2,332,126	1,512,393	3,844,519	1,943,129	(1,871,581)	19,541,878
Other segment items:							
Intersegment net interest (expense)/income	(10,009)	2,066	13,534	15,600	(5,591)	–	–
Intersegment net fee and commission income/(expense)	48	69	1,555	1,624	(236)	(1,436)	–
Capital expenditure	10,511	1,042	29,798	30,840	513	–	41,864
Depreciation and amortisation	11,175	1,036	4,449	5,485	383	–	17,043
Credit commitments	3,519,912	278,653	102,467	381,120	462,753	(370,774)	3,993,011

(1) Other operating income includes insurance premium income earned, and operating expenses include insurance benefits and claims.

(2) Non-current assets include property and equipment, investment properties and other long-term assets.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 Segment reporting (Continued)

As at and for the year ended 31 December 2019

	Corporate banking	Personal banking	Treasury operations	Investment banking	Insurance	Other	Elimination	Total
Interest income	357,678	250,045	204,435	2,096	3,009	4,036	(79,092)	742,207
Interest expense	(173,036)	(116,514)	(149,510)	(599)	(65)	(7,427)	79,194	(367,957)
Net interest income/(expense)	184,642	133,531	54,925	1,497	2,944	(3,391)	102	374,250
Fee and commission income	32,753	54,472	14,190	3,997	2	2,085	(2,582)	104,917
Fee and commission expense	(1,307)	(8,765)	(2,068)	(1,086)	(3,988)	(317)	2,226	(15,305)
Net fee and commission income/(expense)	31,446	45,707	12,122	2,911	(3,986)	1,768	(356)	89,612
Net trading gains	3,177	1,048	19,360	231	2,492	2,219	36	28,563
Net gains on transfers of financial asset	1,346	237	1,791	–	101	2	–	3,477
Other operating income	512	6,221	1,359	198	28,838	19,792	(2,812)	54,108
Operating income	221,123	186,744	89,557	4,837	30,389	20,390	(3,030)	550,010
Operating expenses	(64,142)	(76,833)	(19,210)	(2,487)	(29,209)	(9,429)	3,041	(198,269)
Impairment losses on assets	(84,109)	(16,824)	(736)	–	(10)	(474)	–	(102,153)
Operating profit	72,872	93,087	69,611	2,350	1,170	10,487	11	249,588
Share of results of associates and joint ventures	–	–	–	280	(12)	822	(33)	1,057
Profit before income tax	72,872	93,087	69,611	2,630	1,158	11,309	(22)	250,645
Income tax expense								(48,754)
Profit for the year								201,891
Segment assets	8,415,724	5,064,429	8,587,356	83,987	180,054	527,396	(112,412)	22,746,534
Investments in associates and joint ventures	–	–	–	4,870	–	18,406	(66)	23,210
Total assets	8,415,724	5,064,429	8,587,356	88,857	180,054	545,802	(112,478)	22,769,744
Segment liabilities	9,922,845	6,726,766	3,705,818	57,582	162,958	329,341	(112,262)	20,793,048
Other segment items:								
Intersegment net interest income/(expense)	27,877	48,737	(75,339)	419	30	(1,826)	102	–
Intersegment net fee and commission income/(expense)	698	1,521	48	(320)	(1,871)	278	(354)	–
Capital expenditure	4,120	4,631	219	193	122	34,659	–	43,944
Depreciation and amortisation	7,800	9,622	2,394	284	237	5,304	(286)	25,355
Credit commitments	3,157,694	1,184,876	–	–	–	–	–	4,342,570

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 Segment reporting (Continued)

As at and for the year ended 31 December 2018

	Corporate banking	Personal banking	Treasury operations	Investment banking	Insurance	Other	Elimination	Total
Interest income	344,483	215,904	203,012	1,700	2,731	3,147	(83,077)	687,900
Interest expense	(166,474)	(93,535)	(145,573)	(520)	(39)	(5,130)	83,077	(328,194)
Net interest income/(expense)	178,009	122,369	57,439	1,180	2,692	(1,983)	–	359,706
Fee and commission income	30,556	48,729	16,691	4,419	2	1,901	(2,301)	99,997
Fee and commission expense	(1,238)	(6,923)	(1,886)	(1,224)	(3,369)	(125)	1,976	(12,789)
Net fee and commission income/(expense)	29,318	41,806	14,805	3,195	(3,367)	1,776	(325)	87,208
Net trading gains/(losses)	2,498	901	2,746	304	(1,586)	1,798	58	6,719
Net gains/(losses) on transfers of financial asset	923	142	1,705	–	48	(1)	–	2,817
Other operating income	617	8,313	764	235	22,823	17,250	(2,646)	47,356
Operating income	211,365	173,531	77,459	4,914	20,610	18,840	(2,913)	503,806
Operating expenses	(58,987)	(71,483)	(17,456)	(2,949)	(19,448)	(9,569)	2,913	(176,979)
Impairment losses on assets	(88,871)	(8,751)	(1,348)	1	(20)	(305)	–	(99,294)
Operating profit	63,507	93,297	58,655	1,966	1,142	8,966	–	227,533
Share of results of associates and joint ventures	–	63	3	375	(157)	1,896	(70)	2,110
Profit before income tax	63,507	93,360	58,658	2,341	985	10,862	(70)	229,643
Income tax expense								(37,208)
Profit for the year								192,435
Segment assets	7,628,839	4,438,581	8,629,971	65,239	149,592	423,944	(92,260)	21,243,906
Investments in associates and joint ventures	–	143	–	4,690	–	18,622	(86)	23,369
Total assets	7,628,839	4,438,724	8,629,971	69,929	149,592	442,566	(92,346)	21,267,275
Segment liabilities	9,435,725	6,218,896	3,574,230	50,915	134,988	219,223	(92,099)	19,541,878
Other segment items:								
Intersegment net interest income/(expense)	36,820	43,889	(79,778)	161	54	(1,146)	–	–
Intersegment net fee and commission income/(expense)	506	1,362	95	(403)	(1,493)	258	(325)	–
Capital expenditure	3,263	3,618	178	130	81	34,594	–	41,864
Depreciation and amortisation	4,765	6,023	1,622	121	91	4,421	–	17,043
Credit commitments	2,859,851	1,133,160	–	–	–	–	–	3,993,011

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 Transfers of financial assets

The Group enters into transactions in the normal course of business by which it transfers recognised financial assets to third parties or to special purpose entities. In some cases where these transferred financial assets qualify for derecognition, the transfers may give rise to full or partial derecognition of the financial assets concerned. In other cases where the transferred assets do not qualify for derecognition as the Group has retained substantially all the risks and rewards of these assets, the Group continued to recognise the transferred assets.

Repurchase agreements

Transferred financial assets that do not qualify for derecognition mainly include debt securities held by counterparties as collateral under repurchase agreements and securities lent to counterparties under securities lending agreements. The counterparties are allowed to sell or re-pledge those securities in the absence of default by the Group, but have an obligation to return the securities upon maturity of the contract. If the value of securities increases or decreases, the Group may in certain circumstances, require or be required to pay additional cash collateral. The Group has determined that the Group retains substantially all the risks and rewards of these securities and therefore has not derecognised them. In addition, the Group recognises a financial liability for cash received as collateral.

The following table analyses the carrying amount of the above-mentioned financial assets transferred to third parties that did not qualify for derecognition and their associated financial liabilities:

	As at 31 December 2019		As at 31 December 2018	
	Carrying amount of transferred assets	Carrying amount of associated liabilities	Carrying amount of transferred assets	Carrying amount of associated liabilities
Repurchase agreements	**528**	**503**	108,146	104,434

Credit assets transfers

The Group enters into credit asset transfers in the normal course of business during which it transfers credit assets to special purpose entities which in turn issue asset-backed securities or fund shares to investors. The Group may acquire some asset-backed securities and fund shares at the subordinated tranche level, and accordingly, may retain parts of the risks and rewards of the transferred credit assets. The Group would determine whether or not to derecognise the associated credit assets by evaluating the extent to which it retains the risks and rewards of the assets.

With respect to the credit assets that were securitised and qualified for derecognition, the Group derecognised the transferred credit assets in their entirety. The corresponding total carrying amount of asset-backed securities held by the Group in the securitisation transactions was RMB956 million as at 31 December 2019 (31 December 2018: RMB1,273 million), which also approximates the Group's maximum exposure to loss.

For those in which the Group has neither transferred nor retained substantially all the risks and rewards of the transferred credit assets, and retained control of the credit assets, the transferred credit assets are recognised in the statement of financial position to the extent of the Group's continuing involvement. The carrying amount at the time of transfer of the original credit assets, which the Group determined that it has continuing involvement through acquiring some tranches, was RMB49,985 million for this year (2018: RMB43,080 million) and the carrying amount of assets that the Group continues to recognise in the statement of financial position was RMB15,250 million as at 31 December 2019 (31 December 2018: RMB9,639 million).

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

46 Interests in structured entities

The Group is principally involved with structured entities through financial investments, asset management and credit assets transfers. These structured entities generally finance the purchase of assets by issuing securities or by other means. The Group determines whether or not to consolidate these structured entities depending on whether the Group has control over them.

46.1 Interests in unconsolidated structured entities

The interests held by the Group in unconsolidated structured entities are set out as below:

Structured entities sponsored by the Group

In conducting the asset management business in Chinese mainland, the Group established various structured entities to provide customers specialised investment opportunities within narrow and well-defined objectives, including non-guaranteed wealth management products, publicly offered funds and asset management plans, and earned management fee, commission and custodian fees in return.

As at 31 December 2019, the balance of the above unconsolidated bank wealth management products sponsored by the Group amounted to RMB1,231,861 million (31 December 2018: RMB1,157,201 million). The balance of unconsolidated publicly offered funds and asset management plans sponsored by the Group amounted to RMB638,865 million (31 December 2018: RMB762,725 million).

For the year ended 31 December 2019, the above-mentioned management fee, commission and custodian fee amounted to RMB6,904 million (2018: RMB9,041 million).

As at 31 December 2019, the balance of interest and commission receivable held by the Group in above-mentioned structured entities are not material. For the purpose of asset-liability management, wealth management products may require short-term financing from the Group and other banks. The Group is not contractually obliged to provide financing. After internal risk assessment, the Group may enter into repurchase and placement transactions with these wealth management products in accordance with market principles. For the year ended 31 December 2019, the maximum balance of such financing provided by the Group to the unconsolidated wealth management products was RMB180,050 million (2018: RMB122,322 million). Such financing provided by the Group was included in "Placements with and loans to banks and other financial institutions". As at 31 December 2019, the balance of the above transactions was RMB170,797 million (31 December 2018: RMB107,000 million). The maximum exposure to loss of those placements approximated to their carrying amount.

In addition, the total carrying amount as at the transfer date of credit assets transferred by the Group into the unconsolidated structured entities was RMB570 million for the year ended 31 December 2019 (2018: RMB163 million). For the description of the portion of asset-backed securities issued by the above structured entities and held by the Group, refer to Note V.45.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

46 Interests in structured entities (Continued)

46.1 Interests in unconsolidated structured entities (Continued)

Structured entities sponsored by other financial institutions

The interests held by the Group in the structured entities sponsored by other financial institutions through direct investments are set out as below:

Structured entity type	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Financial assets at amortised cost	Total	Maximum exposure to loss
As at 31 December 2019					
Fund investments	**53,349**	**–**	**–**	**53,349**	**53,349**
Investment trusts and asset management plans	**2,396**	**–**	**8,163**	**10,559**	**10,559**
Asset-backed securitisations	**905**	**68,192**	**44,008**	**113,105**	**113,105**
As at 31 December 2018					
Fund investments	39,237	–	–	39,237	39,237
Investment trusts and asset management plans	2,420	–	8,561	10,981	10,981
Asset-backed securitisations	759	49,195	48,613	98,567	98,567

46.2 Consolidated structured entities

The Group's consolidated structured entities mainly consist of open-end funds, private equity funds, trusts for asset-backed securities, and special-purpose companies. The Group controls these entities because the Group has power over, is exposed to, or has rights to variable returns from its involvement with these entities and has the ability to use its power over these entities to affect the amount of the Group's returns. Except for providing financial guarantees for the companies established solely for financing purposes, the Group does not provide financial or other support to the other consolidated structured entities.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

47 Offsetting financial assets and financial liabilities

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements are analysed as below:

	Gross amounts of recognised financial assets	Gross amounts offset in the statement of financial position	Amounts presented in the statement of financial position	Amounts not set off in the statement of financial position: Financial instruments*	Amounts not set off in the statement of financial position: Cash collateral received	Net amount
As at 31 December 2019						
Derivatives	**37,020**	**–**	**37,020**	**(27,391)**	**(2,034)**	**7,595**
Reverse repo agreements	**5,408**	**–**	**5,408**	**(5,408)**	**–**	**–**
Other assets	**11,307**	**(10,344)**	**963**	**–**	**–**	**963**
Total	**53,735**	**(10,344)**	**43,391**	**(32,799)**	**(2,034)**	**8,558**
As at 31 December 2018						
Derivatives	42,257	–	42,257	(25,990)	(2,891)	13,376
Reverse repo agreements	4,350	–	4,350	(4,350)	–	–
Other assets	11,727	(8,072)	3,655	–	–	3,655
Total	58,334	(8,072)	50,262	(30,340)	(2,891)	17,031

Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements are analysed as below:

	Gross amounts of recognised financial liabilities	Gross amounts offset in the statement of financial position	Amounts presented in the statement of financial position	Amounts not set off in the statement of financial position: Financial instruments*	Amounts not set off in the statement of financial position: Cash collateral pledged	Net amount
As at 31 December 2019						
Derivatives	**43,204**	**–**	**43,204**	**(27,904)**	**(6,433)**	**8,867**
Repurchase agreements	**503**	**–**	**503**	**(503)**	**–**	**–**
Other liabilities	**12,028**	**(10,344)**	**1,684**	**–**	**–**	**1,684**
Total	**55,735**	**(10,344)**	**45,391**	**(28,407)**	**(6,433)**	**10,551**
As at 31 December 2018						
Derivatives	40,691	–	40,691	(25,976)	(2,029)	12,686
Repurchase agreements	22,446	–	22,446	(22,446)	–	–
Other liabilities	8,681	(8,072)	609	–	–	609
Total	71,818	(8,072)	63,746	(48,422)	(2,029)	13,295

* Including non-cash collateral.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

47 Offsetting financial assets and financial liabilities (Continued)

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously ("the offset criteria").

Derivatives and reverse repo/repurchase agreements included in the amounts are not set off in the statement of financial position where:

- the counterparty has an offsetting exposure with the Group and a master netting or similar arrangement (including ISDA master agreement and Global Master Netting Agreement) is in place with a right of setting off only in the event of default, insolvency or bankruptcy, or the offset criteria are otherwise not satisfied; and

- cash and non-cash collateral have been received/pledged in respect of the transactions described above.

48 The Bank's statement of financial position and changes in equity

48.1 The Bank's statement of financial position

	As at 31 December	
	2019	2018
ASSETS		
Cash and due from banks and other financial institutions	**520,638**	413,600
Balances with central banks	**1,913,236**	1,958,832
Placements with and loans to banks and other financial institutions	**961,732**	1,099,001
Government certificates of indebtedness for bank notes issued	**8,698**	8,060
Precious metals	**197,914**	175,333
Derivative financial assets	**68,731**	96,497
Loans and advances to customers, net	**11,204,197**	10,157,694
Financial investments	**4,343,595**	4,221,661
— financial assets at fair value through profit or loss	**281,703**	225,230
— financial assets at fair value through other comprehensive income	**1,422,035**	1,316,998
— financial assets at amortised cost	**2,639,857**	2,679,433
Investments in subsidiaries	**123,658**	111,884
Investments in associates and joint ventures	**7,998**	7,317
Consolidated structured entities	**209,092**	127,192
Property and equipment	**83,403**	82,440
Investment properties	**2,338**	2,002
Deferred income tax assets	**45,284**	38,208
Other assets	**83,331**	43,312
Total assets	**19,773,845**	18,543,033

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

48 The Bank's statement of financial position and changes in equity (Continued)

48.1 The Bank's statement of financial position (Continued)

	As at 31 December	
	2019	2018
LIABILITIES		
Due to banks and other financial institutions	**1,672,571**	1,721,071
Due to central banks	**791,046**	847,493
Bank notes in circulation	**8,842**	8,237
Placements from banks and other financial institutions	**587,735**	586,749
Financial liabilities held for trading	**2,158**	2,642
Derivative financial liabilities	**61,919**	74,855
Due to customers	**13,788,093**	12,999,376
Bonds issued	**1,004,095**	704,886
Current tax liabilities	**50,851**	23,826
Retirement benefit obligations	**2,537**	2,825
Deferred income tax liabilities	**308**	121
Other liabilities	**149,809**	126,520
Total liabilities	**18,119,964**	17,098,601
EQUITY		
Share capital	**294,388**	294,388
Other equity instruments	**199,893**	99,714
Capital reserve	**132,627**	138,832
Other comprehensive income	**19,292**	8,596
Statutory reserves	**171,003**	154,313
General and regulatory reserves	**240,279**	222,462
Undistributed profits	**596,399**	526,127
Total equity	**1,653,881**	1,444,432
Total equity and liabilities	**19,773,845**	18,543,033

Approved and authorised for issue by the Board of Directors on 27 March 2020.

LIU Liange
Director

WANG Jiang
Director

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

48 The Bank's statement of financial position and changes in equity (Continued)

48.2 The Bank's statement of changes in equity

	Share capital	Other equity instruments	Capital reserve	Other comprehensive income	Statutory reserves	General and regulatory reserves	Undistributed profits	Total
As at 1 January 2019	**294,388**	**99,714**	**138,832**	**8,596**	**154,313**	**222,462**	**526,127**	**1,444,432**
Total comprehensive income	**–**	**–**	**–**	**10,704**	**–**	**–**	**165,764**	**176,468**
Appropriation to statutory reserves	**–**	**–**	**–**	**–**	**16,690**	**–**	**(16,690)**	**–**
Appropriation to general and regulatory reserves	**–**	**–**	**–**	**–**	**–**	**17,817**	**(17,817)**	**–**
Dividends	**–**	**–**	**–**	**–**	**–**	**–**	**(60,993)**	**(60,993)**
Capital contribution and reduction by other equity instruments holders	**–**	**100,179**	**(6,205)**	**–**	**–**	**–**	**–**	**93,974**
Other comprehensive income transferred to retained earnings	**–**	**–**	**–**	**(8)**	**–**	**–**	**8**	**–**
As at 31 December 2019	**294,388**	**199,893**	**132,627**	**19,292**	**171,003**	**240,279**	**596,399**	**1,653,881**

	Share capital	Other equity instruments	Capital reserve	Other comprehensive income	Statutory reserves	General and regulatory reserves	Undistributed profits	Total
As at 1 January 2018	294,388	99,714	138,832	(9,902)	138,275	200,022	463,809	1,325,138
Total comprehensive income	–	–	–	18,437	–	–	159,460	177,897
Appropriation to statutory reserves	–	–	–	–	16,038	–	(16,038)	–
Appropriation to general and regulatory reserves	–	–	–	–	–	22,440	(22,440)	–
Dividends	–	–	–	–	–	–	(58,603)	(58,603)
Other comprehensive income transferred to retained earnings	–	–	–	61	–	–	(61)	–
As at 31 December 2018	294,388	99,714	138,832	8,596	154,313	222,462	526,127	1,444,432

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

49 Events after the financial reporting date

Dividend distribution plan of Domestic Preference Shares (Second Tranche)

The dividend distribution of Domestic Preference Shares (Second Tranche) was approved by the Board of Directors of the Bank at the Board meeting held on 13 January 2020. The dividend of RMB1,540 million was paid at a rate of 5.5% on 13 March 2020. The dividend payable was not reflected in liabilities of the financial statements.

Issuance of Offshore Preference Shares

The Bank has received the *Approval Regarding the Offshore Non-public Issuance of Preference Shares by Bank of China Limited* (Zhengjian Approval [2020] No. 254) from the China Securities Regulatory Commission ("CSRC"), which approved the offshore issuance of no more than 200 million preference shares by the Bank, with each share having a par value of RMB100. The Bank has issued Non-cumulative Perpetual Offshore Preference Shares with a total aggregate amount of USD2,820,000,000 and a dividend rate of 3.60% on 26 February 2020. The total number of the Offshore Preference Shares that have been issued is 197,865,300 and the issuance has been completed on 4 March 2020. Capital raised from the issuance of Offshore Preference Shares, after deduction of commissions and expenses relating to the issuances, will be wholly used to replenish the Bank's additional tier 1 capital and to increase its capital adequacy ratio.

Subordinated Bonds Redemption

On 11 March 2020, the Bank redeemed at face value all of the fixed-rate subordinated bonds issued in 2010 with a maturity of 15 years amounting to RMB24.93 billion. The redemption details have been set out in the Bank's announcement dated 12 March 2020.

Evaluation of the impact of COVID-19

The outbreak of the novel coronavirus disease (COVID-19) since early January 2020 has taken a phased toll on the economy, thus likely having impacts, to a certain extent, on the Group's asset quality and returns from certain businesses. The magnitude of the COVID-19 impact depends on the progress of prevention and containment of the epidemic, its duration and the implementation of related control policies. The ECL of the Group at 31 December 2019 was estimated based on a range of forecast economic conditions as at that date. In 2020, the Group will continuously and closely monitor the status of fight against COVID-19, evaluate and proactively address its impact on the Group's financial position and performance, including impairment losses of financial assets. Such evaluation remains in progress as of the date of publishing this report.

VI FINANCIAL RISK MANAGEMENT

1 Overview

The Group's primary risk management objectives are to maximise value for equity holders while maintaining risk within acceptable parameters, optimising capital allocation and satisfying the requirements of the regulatory authorities, the Group's depositors and other stakeholders for the Group's prudent and stable development.

The Group has designed a series of risk management policies and has set up appropriate risk limits and controls to analyse, identify, monitor and report risks by means of relevant and up-to-date information systems. The Group regularly reviews and revises its risk management policies and systems to reflect changes in markets, products and emerging best practice.

The most significant types of risks to the Group are credit risk, market risk and liquidity risk. Market risk includes interest rate risk, currency risk and other price risk.

2 Financial risk management framework

The Board of Directors is responsible for establishing the overall risk appetite of the Group and reviewing and approving the risk management objectives and strategies.

Within this framework, the Group's senior management has the overall responsibility for managing all aspects of risks, including implementing risk management strategies, initiatives and credit policies and approving internal policies, measures and procedures related to risk management. The Risk Management Department, the Credit Management Department, the Financial Management Department and other relevant functional departments are responsible for monitoring financial risks.

The Group manages the risks at the branch level through direct reporting from the branches to the relevant departments responsible for risk management at the Head Office. Business line related risks are monitored through establishing specific risk management teams within the business departments. The Group monitors and controls risk management at subsidiaries by appointing members of their boards of directors and risk management committees as appropriate.

3 Credit risk

The Group takes on exposure to credit risk, which is the risk that a customer or counterparty will cause a financial loss for the Group by failing to discharge an obligation. Credit risk is one of the most significant risks for the Group's business.

Credit risk exposures arise principally in lending activities and debt securities investment activities. There is also credit risk in off-balance sheet financial instruments, such as derivatives, loan commitments, bill acceptance, letters of guarantee and letters of credit.

3.1 Credit risk measurement

(1) Loans and advances to customers and off-balance sheet commitments

The Credit Management Department is responsible for centrally monitoring and evaluating the credit risk of granting loans and advances to customers and off-balance sheet credit commitments, and reporting to senior management and the Board of Directors on a regular basis.

The Group mainly measures the credit risk of corporate loans and advances based on the PD and financial status of customers' agreed obligations, and considering the current credit exposure and possible future development trends. For individual customers, the Group uses a standard credit approval process to assess the credit risk of individual loans, and uses a scorecard model based on historical LGD to measure the credit risk of credit cards.

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.1 Credit risk measurement (Continued)

(1) Loans and advances to customers and off-balance sheet commitments (Continued)

For credit risk arising from off-balance sheet commitments, the Group manages the risks according to the characteristics of the products. These mainly include loan commitments, guarantees, bill acceptances and letters of credit. Guarantees, bill acceptances and letters of credit carry similar credit risk to loans. Documentary and commercial letters of credit are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions and are collateralised by the underlying shipment documents of goods to which they relate or deposits and are therefore assessed to have less credit risk than a direct loan. Besides, the Group monitors the term to maturity of off-balance sheet commitments and those with longer-terms are assessed to have greater credit risk than shorter-term commitments.

The Group measures and manages the credit quality of loans and advances to corporate and personal customers based on the *Guideline for Loan Credit Risk Classification* (the "Guideline"), which requires commercial banks to classify their corporate and personal loans into five categories: pass, special-mention, substandard, doubtful and loss, among which loans classified in the substandard, doubtful and loss categories are regarded as non-performing loans. Off-balance sheet commitments with credit exposures are also assessed and categorised with reference to the Guideline. For operations in Hong Kong, Macao, Taiwan and other countries and regions, where local regulations and requirements are more prudent than the Guideline, the credit assets are classified according to local regulations and requirements.

The five categories are defined as follows:

Pass: loans for which borrowers can honour the terms of the contracts, and there is no reason to doubt their ability to repay the principal and interest of loans in full and on a timely basis.

Special-mention: loans for which borrowers are still able to service the loans currently, although the repayment of loans might be adversely affected by some factors.

Substandard: loans for which borrowers' ability to service loans is apparently in question and borrowers cannot depend on their normal business revenues to pay back the principal and interest of loans. Certain losses might be incurred by the Group even when guarantees are executed.

Doubtful: loans for which borrowers cannot pay back the principal and interest of loans in full and significant losses will be incurred by the Group even when guarantees are executed.

Loss: principal and interest of loans cannot be recovered or only a small portion can be recovered after taking all possible measures and resorting to necessary legal procedures.

The Bank implemented a customer credit rating system based on the PD model. The PD model uses the principle of logistic regression to predict the PD for customers in the coming year. According to the calculated PD value, the risk rating of the customer is obtained through the relevant mapping relationship table. The Group conducts back-testing of the model according to the customer's actual default each year, so that the model calculation results are closer to the objective facts.

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.1 Credit risk measurement (Continued)

(1) Loans and advances to customers and off-balance sheet commitments (Continued)

The customer credit ratings in the internal model are based on four categories of A, B, C and D which are further classified into fifteen grades as AAA, AA, A, BBB+, BBB, BBB-, BB+, BB, BB-, B+, B-, CCC, CC, C, and D. Credit grading D equates to defaulted customers while the others are assigned to performing customers.

Five-category loan classifications and customer credit ratings are determined by the Head Office and tier 1 branch management under approved delegated authorities. The Bank performs centralised review on customer credit ratings and five-category loan classifications on an annual basis. Further, five-category loan classifications are re-examined on a quarterly basis. Adjustments are made to these classifications and ratings as necessary according to customers' operational and financial position.

The Group identifies credit risk collectively based on industry, geography and customer type. This information is monitored regularly by management.

Management periodically reviews various elements of the Group's credit risk management process, in the context of loan portfolio growth, the changing mix and concentration of assets, and the evolving risk profile of the credit portfolio. From time to time, in this regard, refinements are made to the Group's credit risk management processes to most effectively manage the effects of these changes on the Group's credit risk. These refinements include, among other things, adjustments to portfolio level controls, such as revisions to lists of approved borrowers, industry quotas and underwriting criteria. Where circumstances related to specific loans or a group of loans increase the Bank's credit risk, actions are taken, to the extent possible, to strengthen the Group's security position. The actions may include obtaining additional guarantors or collateral.

(2) Due from, placements with and loans to banks and other financial institutions

The Group manages the credit quality of due from, placements with and loans to banks and other financial institutions considering the size, financial position and the internal and external credit rating of banks and financial institutions. In response to adverse credit market conditions, various initiatives were implemented since 2008 to better manage and report credit risk, including establishing a special committee which meets periodically and on an ad hoc basis to discuss actions in response to market changes impacting the Group's exposure to credit risk, and formulating a watch list process over counterparty names at risk.

(3) Debt securities and derivatives

Credit risk within debt securities arises from exposure to movements in credit spreads, default rates and loss given default, as well as changes in the credit of underlying assets.

The Group manages the credit risk within debt securities by monitoring the external credit rating, such as Standard & Poor's ratings or their equivalents, of the security, the internal credit rating of the issuers of debt securities, and the credit quality of underlying assets of securitisation products (including review of default rates, prepayment rates), industry and sector performance, loss coverage ratios and counterparty risk, to identify exposure to credit risk.

The Group has policies to maintain strict control limits on net open derivative positions based on the notional amount and term. At any time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Group (i.e. assets for which fair value is positive). The derivative credit risk exposure is managed as part of the overall exposure lending limits set for customers and financial institutions. Collateral or other security is not usually obtained for credit risk exposures on these financial instruments.

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.2 Credit risk limit control and mitigation policies

The Group manages limits and controls concentrations of credit risk in particular, to individual customers and to industries.

(1) Credit risk limits and controls

(i) Loans and advances and off-balance sheet commitments

In order to manage the exposure to credit risk, the Group has adopted credit policies and procedures that are reviewed and updated by the Credit Management Department and the Credit Approval Department at the Head Office. The credit approval process for both corporate loans and personal loans can be broadly divided into three stages: (1) credit origination and assessment; (2) credit review and approval; and (3) fund disbursement and post-disbursement management.

Credit to corporate customers in the Chinese mainland is originated by the Corporate Banking Department at the Head Office and the Corporate Banking Department at branch level and submitted to the Credit Approval Department for due diligence and approval. All credit applications for corporate customers must be approved by the authorised credit application approvers at the Head Office and tier 1 branch level in the Chinese mainland, except for the low risk credit applications which are in accordance with the rules. The exposure to any one borrower, including banks, is restricted by credit limits covering on and off-balance sheet exposures.

Personal loans in the Chinese mainland are originated by the Personal Banking Departments at branch level and must be approved by authorised approvers at tier 1 branch level in the Chinese mainland, except for individual pledged loans and government-sponsored student loans, which may be approved by authorised approvers at sub-branches below tier 1 level. High risk personal loans such as personal loans for business purposes in excess of certain limits must also be reviewed by the Risk Management Department.

The Head Office also oversees the risk management of the branches in Hong Kong, Macao, Taiwan and other countries and regions. In particular, any credit application at these branches exceeding the authorisation limits is required to be submitted to the Head Office for approval.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

(ii) Debt securities and derivatives

The Group is also exposed to credit risk through investment activities and trading activities. Credit limits are established based on type of instruments and the credit quality of counterparties, securities issuers and the securities, and set limits are actively monitored.

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.2 Credit risk limit control and mitigation policies (Continued)

(2) Credit risk mitigation policies

(i) Collateral and guarantees

The Group has a range of policies and practices intended to mitigate credit risk. The most prevalent of these is the taking of security for funds advances, collaterals and guarantees. The Group implements guidelines on the acceptability of specific classes of collateral. The amount of acceptable collateral at the time of loan origination is determined by the Credit Management Department and is subject to loan-to-value ratio limits based on type and is monitored on an ongoing basis by the Credit Management Department. The maximum loan-to-value ratios based on principal collateral types for corporate loans and advances are:

Collateral	Maximum loan-to-value ratio
Deposit receipt	95%
PRC Treasury bonds	90%
PRC financial institution bonds	85%
Publicly traded stocks	50%
Construction land use rights	70%
Real estate	70%
Automobiles	50%

Mortgages to retail customers are generally collateralised by mortgages over residential properties. Other loans are collateralised depending on the nature of the loan.

For loans guaranteed by a third party guarantor, the Group will assess the guarantor's credit rating, financial condition, credit history and ability to meet obligations.

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured, with the exception of certain asset-backed securities and similar instruments, which are secured by portfolios of financial instruments.

Collateral is also held as part of reverse repurchase agreements. Under such agreements, the Group is permitted to sell or repledge collateral in the absence of default by the owner of the collateral. Details of collateral accepted and which the Group is obligated to return are disclosed in Note V.41.3.

(ii) Master netting arrangements

The Group further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in the offsetting of assets and liabilities in the statement of financial position, as transactions are usually settled on a gross basis. However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if a default occurs, all amounts with the customer are terminated and settled on a net basis. The Group's overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a short period, as it is affected by each transaction subject to the arrangement.

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.3 Impairment measurement for losses on assets

Refer to Note II.4.6 for relevant policies.

3.4 Maximum exposure to credit risk before collateral held or other credit enhancements

	As at 31 December	
	2019	2018
Credit risk exposures relating to on-balance sheet financial assets are as follows:		
Due from banks and other financial institutions	**500,560**	363,176
Balances with central banks	**2,078,809**	2,331,053
Placements with and loans to banks and other financial institutions	**898,959**	1,042,358
Government certificates of indebtedness for bank notes issued	**155,466**	145,010
Derivative financial assets	**93,335**	124,126
Loans and advances to customers, net	**12,743,425**	11,515,764
Financial investments		
— financial assets at fair value through profit or loss	**378,131**	279,472
— financial assets at fair value through other comprehensive income	**2,196,352**	1,862,232
— financial assets at amortised cost	**2,777,683**	2,804,301
Other assets	**115,941**	88,012
Subtotal	**21,938,661**	20,555,504
Credit risk exposures relating to off-balance sheet items are as follows:		
Letters of guarantee issued	**1,049,629**	1,070,825
Loan commitments and other credit commitments	**3,292,941**	2,922,186
Subtotal	**4,342,570**	3,993,011
Total	**26,281,231**	24,548,515

The table above represents a worst case scenario of credit risk exposure of the Group as at 31 December 2019 and 2018, without taking into account any collateral held, master netting agreements or other credit enhancements attached. For on-balance sheet assets, the exposures set out above are based on net carrying amounts as reported in the statement of financial position.

As at 31 December 2019, 48.49% of the Group's total maximum credit exposure is derived from loans and advances to customers (31 December 2018: 46.91%) and 20.31% represents investments in debt securities (31 December 2018: 20.09%).

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances

Analysis of loans and advances to customers (accrued interest excluded) by geographical area, industry, collateral type and analysis of impaired and overdue loans and advances to customers is presented below:

(1) Concentrations of risk for loans and advances to customers

(i) Analysis of loans and advances to customers by geographical area

Group

	As at 31 December			
	2019		2018	
	Amount	% of total	Amount	% of total
Chinese mainland	**10,302,408**	**79.04%**	9,273,549	78.67%
Hong Kong, Macao and Taiwan	**1,697,434**	**13.02%**	1,515,844	12.86%
Other countries and regions	**1,034,347**	**7.94%**	998,290	8.47%
Total	**13,034,189**	**100.00%**	11,787,683	100.00%

Chinese mainland

	As at 31 December			
	2019		2018	
	Amount	% of total	Amount	% of total
Northern China	**1,573,127**	**15.27%**	1,456,249	15.70%
Northeastern China	**494,186**	**4.80%**	501,420	5.41%
Eastern China	**4,016,742**	**38.99%**	3,622,159	39.06%
Central and Southern China	**2,875,436**	**27.91%**	2,499,434	26.95%
Western China	**1,342,917**	**13.03%**	1,194,287	12.88%
Total	**10,302,408**	**100.00%**	9,273,549	100.00%

(ii) Analysis of loans and advances to customers by customer type

	Chinese mainland	Hong Kong, Macao and Taiwan	Other countries and regions	Total
As at 31 December 2019				
Corporate loans and advances				
— Trade bills	**996,845**	**108,177**	**127,170**	**1,232,192**
— Other	**4,853,846**	**1,051,188**	**849,154**	**6,754,188**
Personal loans	**4,451,717**	**538,069**	**58,023**	**5,047,809**
Total	**10,302,408**	**1,697,434**	**1,034,347**	**13,034,189**
As at 31 December 2018				
Corporate loans and advances				
— Trade bills	778,907	95,793	128,916	1,003,616
— Other	4,559,625	964,102	820,255	6,343,982
Personal loans	3,935,017	455,949	49,119	4,440,085
Total	9,273,549	1,515,844	998,290	11,787,683

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(1) Concentrations of risk for loans and advances to customers (Continued)

(iii) Analysis of loans and advances to customers by industry

Group

	As at 31 December			
	2019		2018	
	Amount	**% of total**	Amount	% of total
Corporate loans and advances				
Commerce and services	**1,706,650**	**13.09%**	1,516,354	12.86%
Manufacturing	**1,679,202**	**12.88%**	1,674,340	14.21%
Transportation, storage and postal services	**1,294,922**	**9.93%**	1,182,411	10.03%
Real estate	**1,042,664**	**8.00%**	915,793	7.77%
Production and supply of electricity, heating, gas and water	**649,289**	**4.98%**	648,849	5.50%
Financial services	**565,333**	**4.34%**	398,478	3.38%
Mining	**293,375**	**2.25%**	320,369	2.72%
Construction	**255,160**	**1.96%**	239,397	2.03%
Water, environment and public utility management	**199,376**	**1.53%**	167,811	1.42%
Public utilities	**149,855**	**1.15%**	125,917	1.07%
Other	**150,554**	**1.16%**	157,879	1.34%
Subtotal	**7,986,380**	**61.27%**	7,347,598	62.33%
Personal loans				
Mortgages	**3,993,271**	**30.64%**	3,503,563	29.72%
Credit cards	**476,743**	**3.66%**	426,338	3.62%
Other	**577,795**	**4.43%**	510,184	4.33%
Subtotal	**5,047,809**	**38.73%**	4,440,085	37.67%
Total	**13,034,189**	**100.00%**	11,787,683	100.00%

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(1) Concentrations of risk for loans and advances to customers (Continued)

(iii) Analysis of loans and advances to customers by industry (Continued)

Chinese mainland

	As at 31 December			
	2019		2018	
	Amount	% of total	Amount	% of total
Corporate loans and advances				
Commerce and services	**1,269,121**	**12.32%**	1,130,498	12.19%
Manufacturing	**1,285,438**	**12.48%**	1,296,509	13.98%
Transportation, storage and postal services	**1,129,091**	**10.96%**	1,009,087	10.88%
Real estate	**553,951**	**5.38%**	469,358	5.06%
Production and supply of electricity, heating, gas and water	**489,086**	**4.75%**	504,348	5.44%
Financial services	**398,095**	**3.86%**	253,212	2.73%
Mining	**165,218**	**1.60%**	178,471	1.92%
Construction	**214,351**	**2.08%**	200,982	2.17%
Water, environment and public utility management	**188,387**	**1.83%**	157,594	1.70%
Public utilities	**120,595**	**1.17%**	107,201	1.16%
Other	**37,358**	**0.36%**	31,272	0.34%
Subtotal	**5,850,691**	**56.79%**	5,338,532	57.57%
Personal loans				
Mortgages	**3,582,138**	**34.77%**	3,154,164	34.01%
Credit cards	**462,150**	**4.49%**	411,145	4.43%
Other	**407,429**	**3.95%**	369,708	3.99%
Subtotal	**4,451,717**	**43.21%**	3,935,017	42.43%
Total	**10,302,408**	**100.00%**	9,273,549	100.00%

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(1) Concentrations of risk for loans and advances to customers (Continued)

(iv) Analysis of loans and advances to customers by collateral type

Group

	As at 31 December			
	2019		2018	
	Amount	% of total	Amount	% of total
Unsecured loans	**4,151,941**	**31.86%**	3,636,400	30.84%
Guaranteed loans	**1,572,146**	**12.06%**	1,837,442	15.59%
Collateralised and other secured loans	**7,310,102**	**56.08%**	6,313,841	53.57%
Total	**13,034,189**	**100.00%**	11,787,683	100.00%

Chinese mainland

	As at 31 December			
	2019		2018	
	Amount	% of total	Amount	% of total
Unsecured loans	**2,923,150**	**28.37%**	2,585,343	27.88%
Guaranteed loans	**1,211,994**	**11.77%**	1,417,321	15.28%
Collateralised and other secured loans	**6,167,264**	**59.86%**	5,270,885	56.84%
Total	**10,302,408**	**100.00%**	9,273,549	100.00%

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(2) Analysis of loans and advances to customers by impaired status

(i) Impaired loans and advances by geographical area

Group

	As at 31 December					
	2019			2018		
	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio
Chinese mainland	**169,951**	**95.35%**	**1.65%**	162,778	97.50%	1.76%
Hong Kong, Macao and Taiwan	**3,842**	**2.16%**	**0.23%**	2,720	1.63%	0.18%
Other countries and regions	**4,442**	**2.49%**	**0.43%**	1,454	0.87%	0.15%
Total	**178,235**	**100.00%**	**1.37%**	166,952	100.00%	1.42%

Chinese mainland

	As at 31 December					
	2019			2018		
	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio
Northern China	**31,762**	**18.69%**	**2.02%**	23,053	14.16%	1.58%
Northeastern China	**22,123**	**13.02%**	**4.48%**	40,580	24.93%	8.09%
Eastern China	**59,764**	**35.17%**	**1.49%**	56,423	34.66%	1.56%
Central and Southern China	**39,060**	**22.98%**	**1.36%**	28,114	17.28%	1.12%
Western China	**17,242**	**10.14%**	**1.28%**	14,608	8.97%	1.22%
Total	**169,951**	**100.00%**	**1.65%**	162,778	100.00%	1.76%

(ii) Impaired loans and advances by customer type

Group

	As at 31 December					
	2019			2018		
	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio
Corporate loans and advances	**149,427**	**83.84%**	**1.87%**	139,108	83.32%	1.89%
Personal loans	**28,808**	**16.16%**	**0.57%**	27,844	16.68%	0.63%
Total	**178,235**	**100.00%**	**1.37%**	166,952	100.00%	1.42%

Chinese mainland

	As at 31 December					
	2019			2018		
	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio
Corporate loans and advances	**141,978**	**83.54%**	**2.43%**	135,421	83.19%	2.54%
Personal loans	**27,973**	**16.46%**	**0.63%**	27,357	16.81%	0.70%
Total	**169,951**	**100.00%**	**1.65%**	162,778	100.00%	1.76%

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(2) Analysis of loans and advances to customers by impaired status (Continued)

(iii) Impaired loans and advances by geographical area and industry

	As at 31 December					
	2019			2018		
	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio
Chinese mainland						
Corporate loans and advances						
Commerce and services	45,104	25.31%	3.55%	38,579	23.11%	3.41%
Manufacturing	59,646	33.46%	4.64%	70,092	41.98%	5.41%
Transportation, storage and postal services	8,276	4.64%	0.73%	7,453	4.46%	0.74%
Real estate	2,936	1.65%	0.53%	4,370	2.62%	0.93%
Production and supply of electricity, heating, gas and water	10,954	6.15%	2.24%	1,952	1.17%	0.39%
Financial services	225	0.13%	0.06%	127	0.08%	0.05%
Mining	4,946	2.77%	2.99%	5,494	3.29%	3.08%
Construction	3,561	2.00%	1.66%	2,423	1.45%	1.21%
Water, environment and public utility management	1,594	0.89%	0.85%	1,223	0.73%	0.78%
Public utilities	877	0.49%	0.73%	159	0.10%	0.15%
Other	3,859	2.17%	10.33%	3,549	2.13%	11.35%
Subtotal	141,978	79.66%	2.43%	135,421	81.12%	2.54%
Personal loans						
Mortgages	10,463	5.87%	0.29%	10,225	6.12%	0.32%
Credit cards	10,269	5.76%	2.22%	9,636	5.77%	2.34%
Other	7,241	4.06%	1.78%	7,496	4.49%	2.03%
Subtotal	27,973	15.69%	0.63%	27,357	16.38%	0.70%
Total for Chinese mainland	169,951	95.35%	1.65%	162,778	97.50%	1.76%
Hong Kong, Macao, Taiwan and other countries and regions	8,284	4.65%	0.30%	4,174	2.50%	0.17%
Total	178,235	100.00%	1.37%	166,952	100.00%	1.42%

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(2) Analysis of loans and advances to customers by impaired status (Continued)

(iv) Impaired loans and advances and related allowance by geographical area

	Impaired loans	Allowance for impairment losses	Net
As at 31 December 2019			
Chinese mainland	**169,951**	**(131,307)**	**38,644**
Hong Kong, Macao and Taiwan	**3,842**	**(2,462)**	**1,380**
Other countries and regions	**4,442**	**(2,775)**	**1,667**
Total	**178,235**	**(136,544)**	**41,691**
As at 31 December 2018			
Chinese mainland	162,778	(128,714)	34,064
Hong Kong, Macao and Taiwan	2,720	(1,407)	1,313
Other countries and regions	1,454	(995)	459
Total	166,952	(131,116)	35,836

(v) Within the impaired corporate loans and advances, the portions covered and not covered by collateral held are as follows:

	Group		Chinese mainland	
	As at 31 December 2019	As at 31 December 2018	**As at 31 December 2019**	As at 31 December 2018
Portion covered	**94,007**	88,150	**92,737**	86,343
Portion not covered	**55,420**	50,958	**49,241**	49,078
Total	**149,427**	139,108	**141,978**	135,421
Fair value of collateral held	**49,054**	48,353	**46,939**	45,404

Collateral of impaired corporate loans and advances includes land, buildings, equipment and others. The fair value of collateral was estimated by the Group with reference to the latest available external valuations adjusted for recent experience in disposal of collateral as well as the market conditions.

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(3) Loans and advances rescheduled

Rescheduling is a voluntary or, to a limited extent, court-supervised procedure, through which the Group and a borrower and/or its guarantor, if any, rescheduled credit terms as a result of deterioration in the borrower's financial condition or of the borrower's inability to make payments when due. The Group reschedules a non-performing loan only if the borrower has good prospects. In addition, prior to approving the rescheduling of loans, the Group typically requires additional guarantees, pledges and/or collateral, or the assumption of the loan by a borrower with better repayment ability.

Rescheduled loans are subject to a surveillance period of six months. During the surveillance period, rescheduled loans remain as non-performing loans and the Group monitors the borrower's business operations and loan repayment patterns. After the surveillance period, rescheduled loans may be upgraded to "Special-mention" upon review if certain criteria are met. If the rescheduled loans fall overdue or if the borrower is unable to demonstrate its repayment ability, these loans will be reclassified to "Doubtful" or below. All rescheduled loans within the surveillance period were determined to be impaired as at 31 December 2019 and 2018.

As at 31 December 2019 and 2018, within impaired loans and advances, rescheduled loans and advances that were overdue for 90 days or less were insignificant.

(4) Overdue loans and advances to customers

(i) Analysis of overdue loans and advances to customers by collateral type and overdue days

Group

	Past due up to 90 days	Past due 91–360 days	Past due 361 days–3 years	Past due over 3 years	Total
As at 31 December 2019					
Unsecured loans	**8,937**	**12,236**	**7,591**	**2,086**	**30,850**
Guaranteed loans	**8,956**	**11,150**	**12,747**	**1,949**	**34,802**
Collateralised and other secured loans	**44,945**	**22,056**	**23,917**	**6,059**	**96,977**
Total	**62,838**	**45,442**	**44,255**	**10,094**	**162,629**
As at 31 December 2018					
Unsecured loans	11,682	16,415	7,353	2,016	37,466
Guaranteed loans	18,927	30,269	25,358	5,098	79,652
Collateralised and other secured loans	54,145	23,805	19,692	5,191	102,833
Total	84,754	70,489	52,403	12,305	219,951

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 *Loans and advances (Continued)*

(4) Overdue loans and advances to customers (Continued)

(i) Analysis of overdue loans and advances to customers by collateral type and overdue days (Continued)

Chinese mainland

	Past due up to 90 days	Past due 91–360 days	Past due 361 days–3 years	Past due over 3 years	Total
As at 31 December 2019					
Unsecured loans	**7,141**	**10,611**	**6,835**	**2,071**	**26,658**
Guaranteed loans	**8,650**	**10,927**	**12,673**	**1,661**	**33,911**
Collateralised and other secured loans	**40,651**	**19,291**	**23,650**	**5,817**	**89,409**
Total	**56,442**	**40,829**	**43,158**	**9,549**	**149,978**
As at 31 December 2018					
Unsecured loans	8,867	15,652	6,875	1,994	33,388
Guaranteed loans	15,425	30,202	25,072	5,062	75,761
Collateralised and other secured loans	43,837	23,539	18,998	5,116	91,490
Total	68,129	69,393	50,945	12,172	200,639

(ii) Analysis of overdue loans and advances by geographical area

	As at 31 December	
	2019	2018
Chinese mainland	**149,978**	200,639
Hong Kong, Macao and Taiwan	**7,171**	7,972
Other countries and regions	**5,480**	11,340
Subtotal	**162,629**	219,951
Percentage	**1.25%**	1.87%
Less: total loans and advances to customers which have been overdue for less than 3 months	**(62,838)**	(84,754)
Total loans and advances to customers which have been overdue for more than 3 months	**99,791**	135,197

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(5) Loans and advances three-staging exposure

Loans and advances to customers by five-category loan classification and three-staging analysed as follows:

	As at 31 December 2019			
	12-month ECL	Lifetime ECL		
	Stage 1	Stage 2	Stage 3	Total
Pass	**12,514,948**	**47,588**	**–**	**12,562,536**
Special-mention	**–**	**289,314**	**–**	**289,314**
Substandard	**–**	**–**	**77,459**	**77,459**
Doubtful	**–**	**–**	**51,804**	**51,804**
Loss	**–**	**–**	**48,972**	**48,972**
Total	**12,514,948**	**336,902**	**178,235**	**13,030,085**

	As at 31 December 2018			
	12-month ECL	Lifetime ECL		
	Stage 1	Stage 2	Stage 3	Total
Pass	11,183,826	91,017	6	11,274,849
Special-mention	–	342,358	5	342,363
Substandard	–	–	49,788	49,788
Doubtful	–	–	49,341	49,341
Loss	–	–	67,812	67,812
Total	11,183,826	433,375	166,952	11,784,153

As at 31 December 2019 and 2018, loans and advances by five-category loan classification and three-staging did not include loans and advances to customers measured at fair value through profit or loss.

3.6 Due from and placements with and loans to banks and other financial institutions

Banks and other financial institutions comprise those institutions in the Chinese mainland, Hong Kong, Macao, Taiwan and other countries and regions.

The Group monitors the credit risk of counterparties by collecting and analysing counterparty information and establishing credit limits taking into account the nature, size and credit rating of counterparties.

As at 31 December 2019, the majority of the balances of due from and placements with and loans to banks and other financial institutions were banks and other financial institutions in the Chinese mainland (Note V.13 and Note V.15), the majority of the internal credit ratings of these banks and other financial institutions were above A.

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.7 Debt securities

The Group adopted a credit rating approach to manage the credit risk of the debt securities by referring to both internal and external credit rating. The carrying amounts (accrued interest excluded) of the debt investments analysed by external credit ratings at the financial reporting dates are as follows:

	Unrated	A to AAA	Lower than A	Total
As at 31 December 2019				
Issuers in Chinese mainland				
— Government	**12,997**	**2,848,409**	**350**	**2,861,756**
— Public sectors and quasi-governments	**109,923**	**–**	**–**	**109,923**
— Policy banks	**–**	**435,212**	**–**	**435,212**
— Financial institutions	**86,765**	**219,640**	**214,672**	**521,077**
— Corporate	**64,457**	**121,200**	**26,852**	**212,509**
— China Orient	**152,433**	**–**	**–**	**152,433**
Subtotal	**426,575**	**3,624,461**	**241,874**	**4,292,910**
Issuers in Hong Kong, Macao, Taiwan and other countries and regions				
— Governments	**2,364**	**506,421**	**16,089**	**524,874**
— Public sectors and quasi-governments	**60,332**	**58,889**	**–**	**119,221**
— Financial institutions	**5,675**	**123,249**	**31,916**	**160,840**
— Corporate	**11,957**	**127,515**	**34,663**	**174,135**
Subtotal	**80,328**	**816,074**	**82,668**	**979,070**
Total	**506,903**	**4,440,535**	**324,542**	**5,271,980**
As at 31 December 2018				
Issuers in Chinese mainland				
— Government	3,965	2,650,164	–	2,654,129
— Public sectors and quasi-governments	84,364	–	–	84,364
— Policy banks	–	484,992	–	484,992
— Financial institutions	88,468	179,041	229,166	496,675
— Corporate	64,555	102,771	24,364	191,690
— China Orient	153,627	–	–	153,627
Subtotal	394,979	3,416,968	253,530	4,065,477
Issuers in Hong Kong, Macao, Taiwan and other countries and regions				
— Governments	59	355,291	11,252	366,602
— Public sectors and quasi-governments	51,915	56,824	–	108,739
— Financial institutions	3,022	129,934	41,763	174,719
— Corporate	10,824	117,569	24,663	153,056
Subtotal	65,820	659,618	77,678	803,116
Total	460,799	4,076,586	331,208	4,868,593

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.7 Debt securities (Continued)

The carrying amounts (accrued interest excluded) of debt investments analysed by external credit ratings and expected credit losses are as follows:

	As at 31 December 2019			
	12-month ECL	Lifetime ECL		
	Stage 1	Stage 2	Stage 3	Total
Unrated	**467,979**	**239**	**–**	**468,218**
A to AAA	**4,199,036**	**59**	**–**	**4,199,095**
Lower than A	**236,749**	**180**	**–**	**236,929**
Total	**4,903,764**	**478**	**–**	**4,904,242**

	As at 31 December 2018			
	12-month ECL	Lifetime ECL		
	Stage 1	Stage 2	Stage 3	Total
Unrated	420,982	414	–	421,396
A to AAA	3,905,218	158	–	3,905,376
Lower than A	269,793	1,180	–	270,973
Total	4,595,993	1,752	–	4,597,745

3.8 Derivatives

The risk-weighted assets for counterparty credit risk ("CCR") of derivatives of the Group are calculated in accordance with the *Capital Rules for Commercial Banks (Provisional)* and other relevant regulations under the advanced capital measurement approaches. For derivative transactions, risk-weighted assets for CCR include the risk-weighted assets for default risk, the risk-weighted assets for credit valuation adjustment ("CVA") and the risk-weighted assets for central counterparties ("CCPs").

The risk-weighted assets for CCR of derivatives of the Group are calculated in accordance with the *Assets Measurement Rules for Counterparty Default Risk of Derivatives* since 1 January 2019.

The risk-weighted assets for the CCR of derivatives are as follows:

	As at 31 December	
	2019	2018
Risk-weighted assets for default risk		
Currency derivatives	**62,076**	54,280
Interest rate derivatives	**10,442**	2,888
Equity derivatives	**338**	233
Commodity derivatives and other	**12,135**	3,334
	84,991	60,735
Risk-weighted assets for CVA	**79,954**	51,107
Risk-weighted assets for CCPs	**6,095**	10,220
Total	**171,040**	122,062

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.9 Repossessed assets

The Group obtained assets by taking possession of collateral held as security. Detailed information of such repossessed assets of the Group is disclosed in Note V.22.

4 Market risk

4.1 Overview

The Group is exposed to market risks from on-balance and off-balance businesses, that may cause losses to the Group as a result of adverse changes in market prices of interest rate, exchange rate, equities and commodities. Market risk arises from open positions in the trading and banking books. Both the Group's trading book and banking book face market risks. The trading book consists of positions in financial instruments and commodities that are held with trading intent or in order to hedge other elements of the trading book. The banking book consists of financial instruments not included in the trading book (including those financial instruments purchased with surplus funds and managed in the investment book).

The Board of Directors of the Group takes the ultimate responsibility for the oversight of market risk management, including the approval of market risk management policies and procedures and the determination of market risk tolerance. Senior management is responsible for execution of such policies and ensuring that the level of market risk is within the risk appetite determined by the Board, while meeting the Group's business objectives.

Market risk management departments are responsible for the identification, measurement, monitoring, control and reporting of market risks on a Group basis. Business units are responsible for the monitoring and reporting of market risk within their respective business lines.

4.2 Market risk measurement techniques and limits

(1) Trading book

For the purpose of market risk management in the trading book, the Group monitors trading book Value at Risk (VaR) limits, stress testing results and exposure limits and tracks each trading desk and dealer's observance of each limit on a daily basis.

VaR is used to estimate the largest potential loss arising from adverse market movements in a specific holding period and within a certain confidence level.

VaR is performed separately by the Bank and its major subsidiaries that are exposed to market risk, BOCHK (Holdings) and BOCI. The Bank, BOCHK (Holdings) and BOCI used a 99% level of confidence (therefore, statistical probability of 1% that actual losses could be greater than the VaR estimate) and a historical simulation model to calculate the VaR estimate. The holding period of the VaR calculations is one day. To enhance the Group's market risk management, the Group has established the market risk data mart, which enabled a group level trading book VaR calculation on a daily basis.

The accuracy and reliability of the VaR model is verified by daily back-testing of the VaR results in the trading book. The back-testing results are regularly reported to senior management.

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.2 Market risk measurement techniques and limits (Continued)

(1) Trading book (Continued)

The Group utilises stress testing as an effective supplement to the trading book VaR analysis. Stress testing scenarios are performed based on the characteristics of trading transactions to simulate and estimate losses in adverse and exceptional market conditions. To address changes in the financial markets, the Group enhances its market risk identification capabilities by continuously modifying and improving the trading book stress testing scenarios and measurement methodologies in order to capture the potential impact to transaction market prices stemming from changes in market prices and volatility.

The table below shows the VaR of the trading book by type of risk during the years ended 31 December 2019 and 2018:

Unit: USD million

	Year ended 31 December					
	2019			2018		
	Average	High	Low	Average	High	Low
The Bank's trading VaR						
Interest rate risk	**18.70**	**23.50**	**13.24**	17.26	23.85	12.24
Foreign exchange risk	**18.00**	**26.69**	**9.80**	10.19	17.66	4.99
Volatility risk	**0.44**	**2.27**	**0.17**	0.38	0.71	0.11
Commodity risk	**1.77**	**6.26**	**0.75**	1.14	5.55	0.13
Total of the Bank's trading VaR	**23.03**	**29.56**	**17.11**	19.87	26.28	13.92

The reporting of risk in relation to bullion is included in foreign exchange risk above.

Unit: USD million

	Year ended 31 December					
	2019			2018		
	Average	High	Low	Average	High	Low
BOCHK (Holdings)'s trading VaR						
Interest rate risk	**2.72**	**5.30**	**1.26**	3.37	5.50	1.65
Foreign exchange risk	**1.63**	**2.69**	**0.93**	2.30	3.45	1.37
Equity risk	**0.10**	**0.32**	**0.03**	0.20	0.90	0.03
Commodity risk	**2.06**	**5.59**	**0.03**	0.40	1.24	0.11
Total BOCHK (Holdings)'s trading VaR	**3.95**	**6.70**	**2.24**	4.21	5.84	3.07
BOCI's trading VaR[i]						
Equity derivatives unit	**0.76**	**1.96**	**0.34**	0.64	2.04	0.16
Fixed income unit	**0.66**	**0.97**	**0.51**	1.25	1.86	0.65
Global commodity unit	**0.20**	**0.36**	**0.10**	0.29	0.52	0.17
Total BOCI's trading VaR	**1.61**	**2.95**	**1.17**	2.18	3.85	1.24

(i) BOCI monitors its trading VaR for equity derivatives unit, fixed income unit and global commodity unit separately, which include equity risk, interest rate risk, foreign exchange risk and commodity risk.

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.2 Market risk measurement techniques and limits (Continued)

(1) Trading book (Continued)

VaR for each risk factor is the independently derived largest potential loss in a specific holding period and within a certain confidence level due to fluctuations solely in that risk factor. The individual VaRs was not added up to the total VaR as there was a diversification effect due to correlation amongst the risk factors.

(2) Banking book

The banking book is exposed to interest rate risk arising from mismatches in repricing periods and inconsistent adjustments between the benchmark interest rates of assets and liabilities. The Group takes on exposure to interest rate risk and fluctuations in market interest rates that will impact the Group's financial position.

The Group assesses interest rate risk in the banking book primarily through an interest rate repricing gap analysis. Interest rate repricing gap analysis measures the difference between the amount of interest-earning assets and interest-bearing liabilities that must be repriced within certain periods. The Group employs the interest rate repricing gap analysis and takes impact of the off-balance sheet business into consideration when calculating the indications of sensitivity of earnings to changing interest rates. The interest rate gap analysis is set out in Note VI.4.3 and also covers the trading book.

Sensitivity analysis on Net interest income

The Group performs sensitivity analysis by measuring the impact of a change in interest rates on "Net interest income". This analysis assumes that yield curves change in parallel while the structure of assets and liabilities remains unchanged, and does not take into consideration changes in customer behaviour, basis risk, etc. The Group makes timely adjustment to the structure of assets and liabilities based on changes in the market situation, and controls the fluctuation of net interest income within an acceptable level.

The table below illustrates the potential impact of a 25 basis points interest rate move on the net interest income of the Group. The actual situation may be different from the assumptions used and it is possible that actual outcomes could differ from the estimated impact on net interest income of the Group.

	(Decrease)/increase in net interest income	
	As at 31 December	
	2019	2018
+ 25 basis points parallel move in all yield curves	**(4,534)**	(4,136)
– 25 basis points parallel move in all yield curves	**4,534**	4,136

Given the nature of demand deposits, their interest rate fluctuations are less volatile than those of other products. Had the impact of yield curves movement on interest expenses related to demand deposits been excluded, the net interest income for the next twelve months from the reporting date would increase or decrease by RMB14,591 million (2018: RMB13,733 million) for every 25 basis points upwards or downwards parallel shift, respectively.

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.3 GAP analysis

The tables below summarise the Group's exposure to interest rate risk. It includes the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	As at 31 December 2019						
	Less than 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and due from banks and other financial institutions	326,312	52,603	116,321	2,845	129	67,257	565,467
Balances with central banks	1,848,825	2,289	594	–	–	227,101	2,078,809
Placements with and loans to banks and other financial institutions	427,786	195,628	230,922	40,489	–	4,134	898,959
Derivative financial assets	–	–	–	–	–	93,335	93,335
Loans and advances to customers, net	3,317,026	2,369,401	6,291,477	207,511	82,221	475,789	12,743,425
Financial investments							
— financial assets at fair value through profit or loss	17,516	53,982	97,306	54,269	148,855	146,322	518,250
— financial assets at fair value through other comprehensive income	188,302	287,412	366,595	837,429	492,120	46,271	2,218,129
— financial assets at amortised cost	33,368	45,578	487,744	1,331,541	841,101	38,351	2,777,683
Other	4,897	–	–	–	12,737	858,053	875,687
Total assets	6,164,032	3,006,893	7,590,959	2,474,084	1,577,163	1,956,613	22,769,744
Liabilities							
Due to banks and other financial institutions	988,433	371,241	130,006	3,617	–	174,749	1,668,046
Due to central banks	251,446	72,048	510,594	3,570	–	8,619	846,277
Placements from banks and other financial institutions	495,927	71,468	69,079	1,363	14	1,824	639,675
Derivative financial liabilities	–	–	–	–	–	90,060	90,060
Due to customers	9,117,294	1,540,251	2,488,155	2,296,955	339	374,554	15,817,548
Bonds issued	57,441	192,462	404,780	402,772	32,451	6,181	1,096,087
Other	23,693	19,255	10,006	10,847	20,832	550,722	635,355
Total liabilities	10,934,234	2,266,725	3,612,620	2,719,124	53,636	1,206,709	20,793,048
Total interest repricing gap	(4,770,202)	740,168	3,978,339	(245,040)	1,523,527	749,904	1,976,696

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.3 GAP analysis (Continued)

	As at 31 December 2018						
	Less than 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and due from banks and other financial institutions	211,195	29,873	115,397	3,356	–	80,110	439,931
Balances with central banks	2,113,231	2,085	619	–	–	215,118	2,331,053
Placements with and loans to banks and other financial institutions	668,153	98,129	225,933	45,694	–	4,449	1,042,358
Derivative financial assets	–	–	–	–	–	124,126	124,126
Loans and advances to customers, net	3,146,270	2,145,073	5,613,781	119,794	53,241	437,605	11,515,764
Financial investments							
— financial assets at fair value through profit or loss	19,425	37,327	75,423	44,898	96,195	97,223	370,491
— financial assets at fair value through other comprehensive income	112,091	172,122	406,442	789,385	360,876	38,843	1,879,759
— financial assets at amortised cost	14,863	83,459	283,575	1,605,967	777,123	39,314	2,804,301
Other	5,188	–	–	–	3,661	750,643	759,492
Total assets	6,290,416	2,568,068	6,721,170	2,609,094	1,291,096	1,787,431	21,267,275
Liabilities							
Due to banks and other financial institutions	1,011,125	313,145	181,766	49,045	–	176,128	1,731,209
Due to central banks	275,905	156,600	456,671	8,071	–	10,274	907,521
Placements from banks and other financial institutions	428,797	122,663	57,583	1,417	–	1,807	612,267
Derivative financial liabilities	–	–	–	–	–	99,254	99,254
Due to customers	8,515,651	1,354,989	2,668,074	1,960,185	105	384,592	14,883,596
Bonds issued	91,311	157,934	179,233	311,777	35,125	6,747	782,127
Other	17,849	24,535	1,560	2,515	5,246	474,199	525,904
Total liabilities	10,340,638	2,129,866	3,544,887	2,333,010	40,476	1,153,001	19,541,878
Total interest repricing gap	(4,050,222)	438,202	3,176,283	276,084	1,250,620	634,430	1,725,397

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.4 Foreign currency risk

The Group conducts a substantial portion of its business in RMB, with certain transactions denominated in USD, HKD and, to a much lesser extent, other currencies. The major subsidiary, BOCHK Group, conducts the majority of its business in HKD, RMB and USD. The Group endeavours to manage its sources and uses of foreign currencies to minimise potential mismatches in accordance with management directives.

The Group manages its exposure to currency exchange risk through the management of its net foreign currency position and monitors its foreign currency risk on trading books using VaR (Note VI.4.2). Meanwhile, the Group performs currency risk sensitivity analysis to estimate the effect of potential exchange rate changes of foreign currencies against RMB on profit before tax and equity.

The tables below indicate a sensitivity analysis of exchange rate changes of the currencies to which the Group had significant exposure. The analysis calculates the effect of a reasonably possible movement in the currency rates against RMB, with all other variables held constant, on profit before tax and equity. A negative amount in the table reflects a potential net reduction in profit before tax or equity, while a positive amount reflects a potential net increase. Such analysis does not take into account the correlation effect of changes in different foreign currencies, any further actions that may have been or could be taken by management after the financial reporting date to mitigate the effect of exchange differences, nor any consequential changes in the foreign currency positions.

		Effect on profit before tax		Effect on equity*	
Currency	Change in currency rate	**As at 31 December 2019**	As at 31 December 2018	**As at 31 December 2019**	As at 31 December 2018
USD	+1%	**354**	521	**522**	527
HKD	+1%	**(262)**	(338)	**2,079**	2,199

* Effect on other comprehensive income (irrespective of income tax effect).

While the table above indicates the effect on profit before tax and equity of the 1% appreciation of USD and HKD, there will be an opposite effect with the same amounts if the currencies depreciate by the same percentage.

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.4 Foreign currency risk (Continued)

The tables below summarise the Group's exposure to foreign currency exchange rate risk as at 31 December 2019 and 2018. The Group's exposure to RMB is provided in the tables below for comparison purposes. Included in the table are the carrying amounts of the assets and liabilities of the Group along with off-balance sheet positions and credit commitments in RMB equivalent, categorised by the original currencies. Derivative financial instruments are included in the net off-balance sheet position using notional amounts.

	As at 31 December 2019							
	RMB	USD	HKD	EURO	JPY	GBP	Other	Total
Assets								
Cash and due from banks and other financial institutions	370,569	140,513	18,368	10,977	7,833	1,691	15,516	565,467
Balances with central banks	1,583,469	265,682	57,599	59,456	49,422	34,133	29,048	2,078,809
Placements with and loans to banks and other financial institutions	652,817	149,463	33,441	6,050	141	2,435	54,612	898,959
Derivative financial assets	42,558	13,694	26,586	446	20	6,348	3,683	93,335
Loans and advances to customers, net	9,870,244	1,170,630	1,027,104	250,730	11,194	69,423	344,100	12,743,425
Financial investments								
— financial assets at fair value through profit or loss	346,644	78,848	83,199	2,540	6,925	16	78	518,250
— financial assets at fair value through other comprehensive income	1,354,391	489,432	150,486	32,292	103,797	2,610	85,121	2,218,129
— financial assets at amortised cost	2,525,349	219,495	3,319	4,802	770	954	22,994	2,777,683
Other	268,436	162,203	198,398	1,357	1,465	2,691	241,137	875,687
Total assets	17,014,477	2,689,960	1,598,500	368,650	181,567	120,301	796,289	22,769,744
Liabilities								
Due to banks and other financial institutions	1,009,086	391,869	27,167	43,826	21,193	7,374	167,531	1,668,046
Due to central banks	570,675	247,096	19,979	5,920	–	258	2,349	846,277
Placements from banks and other financial institutions	298,497	213,662	76,294	17,161	25,330	3,745	4,986	639,675
Derivative financial liabilities	36,135	19,811	22,813	707	52	6,112	4,430	90,060
Due to customers	11,925,923	1,836,997	1,255,663	254,485	56,683	55,672	432,125	15,817,548
Bonds issued	766,816	258,893	11,868	38,794	1,920	2,744	15,052	1,096,087
Other	254,949	91,825	267,607	3,131	351	1,863	15,629	635,355
Total liabilities	14,862,081	3,060,153	1,681,391	364,024	105,529	77,768	642,102	20,793,048
Net on-balance sheet position	2,152,396	(370,193)	(82,891)	4,626	76,038	42,533	154,187	1,976,696
Net off-balance sheet position	(463,297)	378,515	283,483	5,828	(75,754)	(40,620)	(74,643)	13,512
Credit commitments	2,959,323	836,835	257,229	124,696	9,841	49,401	105,245	4,342,570

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.4 Foreign currency risk (Continued)

	As at 31 December 2018							
	RMB	USD	HKD	EURO	JPY	GBP	Other	Total
Assets								
Cash and due from banks and other financial institutions	308,697	79,058	17,818	6,442	5,694	1,575	20,647	439,931
Balances with central banks	1,855,438	280,029	40,625	39,770	36,838	47,950	30,403	2,331,053
Placements with and loans to banks and other financial institutions	878,861	93,903	30,994	7,636	3,094	283	27,587	1,042,358
Derivative financial assets	67,601	17,913	29,945	621	37	5,237	2,772	124,126
Loans and advances to customers, net	8,830,692	1,146,207	923,070	201,731	12,637	65,563	335,864	11,515,764
Financial investments								
— financial assets at fair value through profit or loss	238,495	56,988	72,981	2,011	–	16	–	370,491
— financial assets at fair value through other comprehensive income	1,191,739	453,918	116,376	30,629	8,573	3,023	75,501	1,879,759
— financial assets at amortised cost	2,548,402	229,300	3,496	3,450	746	1,456	17,451	2,804,301
Other	213,438	148,481	185,113	568	1,244	2,097	208,551	759,492
Total assets	16,133,363	2,505,797	1,420,418	292,858	68,863	127,200	718,776	21,267,275
Liabilities								
Due to banks and other financial institutions	1,060,308	404,757	34,551	40,090	14,270	7,049	170,184	1,731,209
Due to central banks	628,327	246,540	26,758	5,461	–	434	1	907,521
Placements from banks and other financial institutions	266,692	271,303	39,642	12,669	11,242	5,411	5,308	612,267
Derivative financial liabilities	50,554	14,104	26,366	678	46	5,059	2,447	99,254
Due to customers	11,256,454	1,716,821	1,202,357	194,439	58,478	46,334	408,713	14,883,596
Bonds issued	447,679	252,059	6,682	48,465	1,852	9,793	15,597	782,127
Other	191,501	84,330	230,918	2,327	480	1,323	15,025	525,904
Total liabilities	13,901,515	2,989,914	1,567,274	304,129	86,368	75,403	617,275	19,541,878
Net on-balance sheet position	2,231,848	(484,117)	(146,856)	(11,271)	(17,505)	51,797	101,501	1,725,397
Net off-balance sheet position	(795,575)	520,806	355,983	21,144	19,415	(49,526)	(40,626)	31,621
Credit commitments	2,715,693	794,823	223,494	111,092	10,425	44,054	93,430	3,993,011

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk

The liquidity risk means the risk that a commercial bank fails to acquire adequate funds in a timely manner and at a reasonable cost to deal with repayment of debts at maturity, perform other payment obligations and meet other fund needs for normal business operation.

5.1 Liquidity risk management policy and process

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

The Group considers liquidity risk management a significant component of asset-liability management, and determines the size, structure and duration of assets and liabilities consistent with the principle of overall balance between assets and liabilities. The Group establishes its liquidity portfolio to mitigate liquidity risk, and to minimise the gaps in the amount and duration between the funding sources and the uses of funds. The Group refines its financing strategy, taking into consideration various factors including customer risk sensitivity, financing cost and concentration of funding sources. In addition, the Group prioritises the development of customer deposits, dynamically adjusts the structure of fund sources by market-oriented financing modes, including due to banks and other financial institutions, inter-bank borrowings and improves the diversity and stability of financing sources.

Assets available to meet all of the liabilities and to cover outstanding loan commitments include "Cash and due from banks and other financial institutions", "Balances with central banks", "Placements with and loans to banks and other financial institutions", "Loans and advances to customers, net", etc. In the normal course of business, a proportion of short-term loans contractually repayable will be extended and a portion of short-term customer deposits will not be withdrawn upon maturity. The Group would also be able to meet unexpected net cash outflows by entering into repurchase transactions, and by selling securities and accessing additional funding sources.

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.2 Maturity analysis

The tables below analyse the Group's assets and liabilities into relevant maturity groupings based on the remaining period at the financial reporting date to the contractual maturity date. For purposes of the tables set forth, "Loans and advances to customers, net" are considered overdue only if principal payments are overdue. In addition, for loans and advances to customers that are repayable by instalments, only the portion of the loan that is actually overdue is reported as overdue. Any part of the loan that is not due is reported according to residual maturity.

	As at 31 December 2019							
	Overdue/ Undated	On demand	Less than 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	Over 5 years	Total
Assets								
Cash and due from banks and other financial institutions	21	204,121	183,170	55,805	119,376	2,845	129	565,467
Balances with central banks	1,513,473	527,657	16,242	8,293	12,441	703	–	2,078,809
Placements with and loans to banks and other financial institutions	44	–	417,352	185,843	241,024	54,696	–	898,959
Derivative financial assets	–	10,697	14,983	20,855	24,869	16,610	5,321	93,335
Loans and advances to customers, net	51,073	188,916	458,233	1,216,882	2,716,777	3,221,650	4,889,894	12,743,425
Financial investments								
— financial assets at fair value through profit or loss	143,255	–	16,394	49,949	98,245	58,537	151,870	518,250
— financial assets at fair value through other comprehensive income	22,067	–	142,122	234,297	396,998	912,932	509,713	2,218,129
— financial assets at amortised cost	1,767	–	35,141	53,375	506,346	1,337,456	843,598	2,777,683
Other	345,309	381,978	24,301	12,827	23,308	60,436	27,528	875,687
Total assets	2,077,009	1,313,369	1,307,938	1,838,126	4,139,384	5,665,865	6,428,053	22,769,744
Liabilities								
Due to banks and other financial institutions	–	1,036,810	125,011	324,062	175,301	6,779	83	1,668,046
Due to central banks	–	180,113	70,832	72,898	518,864	3,570	–	846,277
Placements from banks and other financial institutions	–	–	492,657	70,924	69,694	6,386	14	639,675
Derivative financial liabilities	–	8,780	11,165	15,936	26,652	20,482	7,045	90,060
Due to customers	–	7,843,084	1,541,342	1,540,159	2,541,528	2,343,527	7,908	15,817,548
Bonds issued	–	–	23,985	150,073	416,192	470,942	34,895	1,096,087
Other	–	280,526	53,662	12,895	121,693	92,907	73,672	635,355
Total liabilities	–	9,349,313	2,318,654	2,186,947	3,869,924	2,944,593	123,617	20,793,048
Net liquidity gap	2,077,009	(8,035,944)	(1,010,716)	(348,821)	269,460	2,721,272	6,304,436	1,976,696

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.2 Maturity analysis (Continued)

	As at 31 December 2018							
	Overdue/ Undated	On demand	Less than 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	Over 5 years	Total
Assets								
Cash and due from banks and other financial institutions	21	178,645	110,908	30,365	116,636	3,356	–	439,931
Balances with central banks	1,588,770	511,244	216,281	2,087	12,329	342	–	2,331,053
Placements with and loans to banks and other financial institutions	44	–	659,399	92,855	231,633	58,427	–	1,042,358
Derivative financial assets	–	10,055	22,259	30,528	38,686	18,634	3,964	124,126
Loans and advances to customers, net	69,539	154,707	397,574	1,086,838	2,478,055	3,036,778	4,292,273	11,515,764
Financial investments								
— financial assets at fair value through profit or loss	93,524	–	16,772	32,788	71,133	52,863	103,411	370,491
— financial assets at fair value through other comprehensive income	16,456	–	71,630	120,021	428,041	870,105	373,506	1,879,759
— financial assets at amortised cost	2,001	–	15,328	78,810	306,782	1,623,516	777,864	2,804,301
Other	301,633	338,223	22,683	7,554	18,968	50,792	19,639	759,492
Total assets	2,071,988	1,192,874	1,532,834	1,481,846	3,702,263	5,714,813	5,570,657	21,267,275
Liabilities								
Due to banks and other financial institutions	–	1,038,168	143,392	314,126	186,252	49,271	–	1,731,209
Due to central banks	–	172,280	104,114	157,466	465,590	8,071	–	907,521
Placements from banks and other financial institutions	–	–	429,492	123,223	58,135	1,417	–	612,267
Derivative financial liabilities	–	7,314	19,861	18,267	33,305	17,434	3,073	99,254
Due to customers	–	7,368,721	1,405,144	1,349,078	2,740,128	2,010,860	9,665	14,883,596
Bonds issued	–	–	45,983	99,061	196,535	323,057	117,491	782,127
Other	–	276,288	36,307	12,145	76,623	66,329	58,212	525,904
Total liabilities	–	8,862,771	2,184,293	2,073,366	3,756,568	2,476,439	188,441	19,541,878
Net liquidity gap	2,071,988	(7,669,897)	(651,459)	(591,520)	(54,305)	3,238,374	5,382,216	1,725,397

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.3 Undiscounted cash flows by contractual maturities

The tables below present the cash flows of the Group of non-derivative financial assets and financial liabilities and derivative financial instruments that will be settled on a net basis and on a gross basis by the remaining contractual maturities at the financial reporting date. The amounts disclosed in the tables are the contractual undiscounted cash flows, except for certain derivatives which are disclosed at fair value (i.e. discounted cash flows basis). The Group also manages its inherent short-term liquidity risk based on expected undiscounted cash flows.

	As at 31 December 2019							
	Overdue/ Undated	On demand	Less than 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	Over 5 years	Total
Non-derivative cash flow								
Cash and due from banks and other financial institutions	21	204,130	183,615	56,074	120,765	3,096	133	567,834
Balances with central banks	1,513,473	527,657	16,249	8,302	12,450	722	–	2,078,853
Placements with and loans to banks and other financial institutions	44	–	417,635	189,233	244,950	56,154	–	908,016
Loans and advances to customers, net	52,895	195,546	484,426	1,298,683	3,086,083	4,534,837	7,151,130	16,803,600
Financial investments								
— financial assets at fair value through profit or loss	143,237	–	16,420	50,340	103,259	84,649	186,039	583,944
— financial assets at fair value through other comprehensive income	22,067	–	142,329	235,681	427,288	1,030,193	561,203	2,418,761
— financial assets at amortised cost	1,798	–	35,530	56,946	554,364	1,543,565	974,147	3,166,350
Other financial assets	1,026	167,792	20,967	1,935	4,506	1,424	14,091	211,741
Total financial assets	1,734,561	1,095,125	1,317,171	1,897,194	4,553,665	7,254,640	8,886,743	26,739,099
Due to banks and other financial institutions	–	1,036,859	125,501	325,279	176,849	7,047	84	1,671,619
Due to central banks	–	180,123	71,548	74,724	526,257	3,787	–	856,439
Placements from banks and other financial institutions	–	–	492,804	71,641	70,322	6,616	14	641,397
Due to customers	–	7,843,233	1,544,280	1,547,409	2,570,184	2,527,791	8,124	16,041,021
Bonds issued	–	–	24,056	150,929	423,073	521,722	36,162	1,155,942
Other financial liabilities	–	220,323	38,040	9,993	20,569	48,656	24,912	362,493
Total financial liabilities	–	9,280,538	2,296,229	2,179,975	3,787,254	3,115,619	69,296	20,728,911
Derivative cash flow								
Derivative financial instruments settled on a net basis	–	1,873	2,324	5,086	(993)	(3,966)	(791)	3,533
Derivative financial instruments settled on a gross basis								
Total inflow	–	104,485	1,790,517	1,514,328	2,672,728	409,405	18,919	6,510,382
Total outflow	–	(103,878)	(1,787,934)	(1,510,528)	(2,673,807)	(409,542)	(18,915)	(6,504,604)

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.3 Undiscounted cash flows by contractual maturities (Continued)

	As at 31 December 2018							
	Overdue/ Undated	On demand	Less than 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	Over 5 years	Total
Non-derivative cash flow								
Cash and due from banks and other financial institutions	21	178,651	111,218	30,532	118,297	3,696	–	442,415
Balances with central banks	1,588,770	511,244	216,643	2,099	12,329	342	–	2,331,427
Placements with and loans to banks and other financial institutions	48	–	660,424	95,839	238,102	60,246	–	1,054,659
Loans and advances to customers, net	71,503	154,728	420,408	1,162,609	2,787,330	4,105,071	6,109,473	14,811,122
Financial investments								
— financial assets at fair value through profit or loss	93,562	–	16,818	33,180	76,304	75,588	139,717	435,169
— financial assets at fair value through other comprehensive income	16,496	–	72,228	121,707	459,033	986,895	433,630	2,089,989
— financial assets at amortised cost	2,032	–	15,587	82,033	356,737	1,853,204	897,790	3,207,383
Other financial assets	763	148,184	13,867	926	3,930	210	4,740	172,620
Total financial assets	1,773,195	992,807	1,527,193	1,528,925	4,052,062	7,085,252	7,585,350	24,544,784
Due to banks and other financial institutions	–	1,038,230	143,665	315,386	187,753	52,826	–	1,737,860
Due to central banks	–	172,289	104,338	158,161	470,743	8,716	–	914,247
Placements from banks and other financial institutions	–	–	429,704	124,123	59,521	1,509	–	614,857
Due to customers	–	7,368,831	1,407,351	1,354,994	2,770,079	2,159,790	9,959	15,071,004
Bonds issued	–	–	46,457	99,898	210,560	362,609	139,539	859,063
Other financial liabilities	–	222,147	23,038	7,037	7,936	30,083	9,715	299,956
Total financial liabilities	–	8,801,497	2,154,553	2,059,599	3,706,592	2,615,533	159,213	19,496,987
Derivative cash flow								
Derivative financial instruments settled on a net basis	–	2,659	2,135	7,101	5,020	(120)	516	17,311
Derivative financial instruments settled on a gross basis								
Total inflow	–	79,242	2,831,895	1,618,108	3,116,519	368,456	7,805	8,022,025
Total outflow	–	(79,178)	(2,830,917)	(1,612,726)	(3,112,216)	(367,680)	(7,784)	(8,010,501)

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.4 Off-balance sheet items

The Group's off-balance sheet items are summarised in the table below at the remaining period to the contractual maturity date. Financial guarantees are also included below at notional amounts and based on the earliest contractual maturity date.

	Less than 1 year	Between 1 and 5 years	Over 5 years	Total
As at 31 December 2019				
Loan commitments [(1)]	**1,859,147**	**587,973**	**167,961**	**2,615,081**
Guarantees, acceptances and other financial facilities	**1,146,111**	**297,015**	**284,363**	**1,727,489**
Subtotal	**3,005,258**	**884,988**	**452,324**	**4,342,570**
Capital commitments	**38,814**	**18,498**	**–**	**57,312**
Total	**3,044,072**	**903,486**	**452,324**	**4,399,882**
As at 31 December 2018				
Loan commitments[(1)]	1,603,299	527,815	137,596	2,268,710
Guarantees, acceptances and other financial facilities	1,125,754	283,767	314,780	1,724,301
Subtotal	2,729,053	811,582	452,376	3,993,011
Operating lease commitments	6,698	12,931	8,464	28,093
Capital commitments	26,828	40,385	–	67,213
Total	2,762,579	864,898	460,840	4,088,317

(1) Included within "Loan commitments" are amounts relating to loan commitments and undrawn credit card limits. Refer to Note V.41.7.

VI FINANCIAL RISK MANAGEMENT (Continued)

6 Fair value

6.1 Assets and liabilities measured at fair value

Assets and liabilities measured at fair value are classified into the following three levels:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities, including equity securities listed on exchanges or debt instruments issued by certain governments and certain exchange-traded derivative contracts.

- Level 2: Valuation technique using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. This level includes the majority of the over-the-counter ("OTC") derivative contracts, debt securities for which quotations are available from pricing service providers, discounted bills, etc.

- Level 3: Valuation technique using inputs for the asset or liability that is not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

The Group's policy is to recognise transfers between levels of the fair value hierarchy as at the financial reporting date.

The Group uses valuation techniques or counterparty quotations to determine the fair value when it is unable to obtain open market quotation in active markets.

The main parameters used in valuation techniques include bond prices, interest rates, foreign exchange rates, equity and stock prices, volatilities, correlations, early repayment rates, counterparty credit spreads and others, which are all observable and obtainable from the open market.

For certain illiquid debt securities (mainly asset-backed securities), unlisted equity (private equity), OTC structured derivative transactions and unlisted funds held by the Group, management obtains valuation quotations from counterparties or uses valuation techniques to determine the fair value, including the discounted cash flow analysis, net asset value and market comparison approach, etc. The fair value of these financial instruments may be based on unobservable inputs which may have a significant impact on the valuation of these financial instruments, and therefore, these assets and liabilities have been classified by the Group as Level 3. Management determines whether to make necessary adjustments to the fair value for the Group's Level 3 financial instruments by assessing the impact of changes in macro-economic factors, valuations by external valuation agencies and other inputs, including loss coverage ratios. The Group has established internal control procedures to control the Group's exposure to such financial instruments.

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

6 Fair value (Continued)

6.1 Assets and liabilities measured at fair value (Continued)

	As at 31 December 2019			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets measured at fair value				
Derivative financial assets	**11,635**	**81,690**	**10**	**93,335**
Loans and advances to customers at fair value	**–**	**339,687**	**–**	**339,687**
Financial assets at fair value through profit or loss				
— Debt securities	**9,988**	**345,296**	**15,948**	**371,232**
— Equity instruments	**6,586**	**1,154**	**71,716**	**79,456**
— Fund investments and other	**21,747**	**6,879**	**38,936**	**67,562**
Financial assets at fair value through other comprehensive income				
— Debt securities	**230,606**	**1,964,070**	**1,676**	**2,196,352**
— Equity instruments and other	**7,425**	**9,077**	**5,275**	**21,777**
Investment properties	**–**	**2,330**	**20,778**	**23,108**
Financial liabilities measured at fair value				
Due to and placements from banks and other financial institutions at fair value	**–**	**(14,767)**	**–**	**(14,767)**
Due to customers at fair value	**–**	**(17,969)**	**–**	**(17,969)**
Bonds issued at fair value	**–**	**(26,113)**	**–**	**(26,113)**
Short position in debt securities	**(2,158)**	**(17,317)**	**–**	**(19,475)**
Derivative financial liabilities	**(9,762)**	**(80,298)**	**–**	**(90,060)**

	As at 31 December 2018			
	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value				
Derivative financial assets	11,655	112,465	6	124,126
Loans and advances to customers at fair value	–	227,643	–	227,643
Financial assets at fair value through profit or loss				
— Debt securities	3,448	261,582	8,417	273,447
— Equity instruments	3,868	104	43,089	47,061
— Fund investments and other	10,730	4,741	34,512	49,983
Financial assets at fair value through other comprehensive income				
— Debt securities	121,859	1,738,951	1,422	1,862,232
— Equity instruments and other	6,592	5,571	5,364	17,527
Investment properties	–	2,248	19,838	22,086
Financial liabilities measured at fair value				
Due to and placements from banks and other financial institutions at fair value	–	(876)	–	(876)
Due to customers at fair value	–	(24,141)	–	(24,141)
Bonds issued at fair value	–	(20,517)	–	(20,517)
Short position in debt securities	(2,642)	(11,685)	–	(14,327)
Derivative financial liabilities	(8,928)	(90,326)	–	(99,254)

VI FINANCIAL RISK MANAGEMENT (Continued)

6 Fair value (Continued)

6.1 Assets and liabilities measured at fair value (Continued)

Reconciliation of Level 3 items

		Financial assets at fair value through profit or loss			Financial assets at fair value through other comprehensive income		
	Derivative financial assets	Debt Securities	Equity instruments	Fund investments and other	Debt securities	Equity instruments and other	Investment properties
As at 1 January 2019	6	8,417	43,089	34,512	1,422	5,364	19,838
Total gains and losses							
— profit/(loss)	10	1,510	(689)	3,245	–	–	355
— other comprehensive income	–	–	–	–	223	(849)	–
Sales	–	(175)	(1,002)	(3,649)	(2)	(2)	(14)
Purchases	–	6,159	30,318	4,708	–	762	2
Settlements	–	–	–	–	–	–	–
Transfers (out)/in of Level 3, net	(6)	–	–	60	–	–	(120)
Other changes	–	37	–	60	33	–	717
As at 31 December 2019	10	15,948	71,716	38,936	1,676	5,275	20,778
Total gains/(losses) for the period included in the income statement for assets/liabilities held as at 31 December 2019	10	1,510	(630)	3,235	–	–	345

		Financial assets at fair value through profit or loss			Financial assets at fair value through other comprehensive income		
	Derivative financial assets	Debt Securities	Equity instruments	Fund investments and other	Debt securities	Equity instruments and other	Investment properties
As at 1 January 2018	–	3,034	23,205	27,899	1,405	4,695	18,597
Total gains and losses							
— profit/(loss)	6	(273)	98	2,678	–	–	556
— other comprehensive income	–	–	–	–	(50)	(911)	–
Sales	–	(5)	(538)	(1,767)	(1)	(3)	(61)
Purchases	–	5,582	20,324	5,681	–	1,588	711
Settlements	–	(1)	–	–	–	–	–
Transfers out of Level 3, net	–	–	–	–	–	–	–
Other changes	–	80	–	21	68	(5)	35
As at 31 December 2018	6	8,417	43,089	34,512	1,422	5,364	19,838
Total gains/(losses) for the period included in the income statement for assets/liabilities held as at 31 December 2018	6	(273)	98	2,677	–	–	535

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

6 Fair value (Continued)

6.1 Assets and liabilities measured at fair value (Continued)

Total gains or losses for the years ended 31 December 2019 and 2018 included in the income statement as well as total gains or losses included in the income statement relating to financial instruments held as at 31 December 2019 and 2018 are presented in "Net trading gains", "Net gains on transfers of financial asset" or "Impairment losses on assets" depending on the nature or category of the related financial instruments.

Gains or losses on Level 3 assets and liabilities included in the income statement for the year comprise:

	Year ended 31 December					
	2019			2018		
	Realised	Unrealised	Total	Realised	Unrealised	Total
Total gains for the year	(39)	4,470	4,431	22	3,043	3,065

There were no significant transfers for the financial instruments measured at fair value between Level 1 and Level 2 during the year ended 31 December 2019.

6.2 Financial assets and liabilities not measured at fair value

Financial assets and liabilities not presented at fair value in the statement of financial position mainly represent "Balances with central banks", "Due from banks and other financial institutions", "Placements with and loans to banks and other financial institutions", "Due to central banks", "Due to banks and other financial institutions", "Loans and advances to customers measured at amortised cost", "Financial investments measured at amortised cost", "Placements from banks and other financial institutions at amortised cost", "Due to customers at amortised cost", "Bonds issued at amortised cost" and "Lease liability".

The tables below summarise the carrying amounts and fair values of "Debt securities at amortised cost" and "Bonds issued" not presented at fair value on the statement of financial reporting date.

	As at 31 December			
	2019		2018	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Debt securities				
at amortised cost(1)	2,769,400	2,774,641	2,795,740	2,806,772
Financial liabilities				
Bonds issued(2)	1,069,974	1,069,309	761,610	766,005

VI FINANCIAL RISK MANAGEMENT (Continued)

6 Fair value (Continued)

6.2 Financial assets and liabilities not measured at fair value (Continued)

(1) Debt securities at amortised cost

The China Orient Bond and Special Purpose Treasury Bond held by the Bank are non-negotiable. As there are no observable market prices or yields reflecting arm's length transactions of a comparable size and tenor, the fair value is determined based on the stated interest rate of the instruments.

Fair values of other debt securities are based on market prices or broker/dealer price quotations. Where this information is not available, the Bank will perform valuation by referring to prices from valuation service providers or on the basis of discounted cash flow models. Valuation parameters include market interest rates, expected future default rates, prepayment rates and market liquidity. The fair values of RMB bonds are mainly determined based on the valuation results provided by China Central Depository & Clearing Co., Ltd.

(2) Bonds issued

The aggregate fair values are calculated based on quoted market prices. For those bonds where quoted market prices are not available, a discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity.

The tables below summarise the fair values of three levels of "Debt securities at amortised cost" (excluding the China Orient Asset Management Corporation Bond and Special Purpose Treasury Bond), and "Bonds issued" not presented at fair value on the statement of financial reporting date.

	As at 31 December 2019			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Debt securities at amortised cost	**71,966**	**2,505,680**	**2,062**	**2,579,708**
Financial liabilities				
Bonds issued	**–**	**1,069,309**	**–**	**1,069,309**

	As at 31 December 2018			
	Level 1	Level 2	Level 3	Total
Financial assets				
Debt securities at amortised cost	73,055	2,534,891	2,237	2,610,183
Financial liabilities				
Bonds issued	–	758,805	7,200	766,005

Other than the above, the difference between the carrying amounts and fair values of those financial assets and liabilities not presented at their fair value in the statement of financial position is insignificant. Fair value is measured using a discounted cash flow model.

VI FINANCIAL RISK MANAGEMENT (Continued)

7 Capital management

The Group follows the principles below with regard to capital management:

- Adequate capital and sustainable development. Follow the lead of the strategic planning of the Group development; and maintain the high quality and adequacy of capital as to meet regulation requirements, support business growth, and advance the sustainable development of the scale, quality and performance of the business in the Group.

- Allocation optimisation and benefit augmentation. Allocate capital properly by prioritising the asset businesses with low capital occupancy and high comprehensive income, and steadily improve the efficiency and return of capital, to achieve the reciprocal matchup and dynamic equilibrium among risks, assets and returns.

- Refined management and capital level improvement. Optimise the capital management system by sufficiently identifying, calculating, monitoring, mitigating, and controlling various types of risks; incorporate capital restraints into the whole process of product pricing, resource allocation, structural adjustments, performance evaluation, etc., ensuring that the capital employed is commensurate with the related risks and the level of risk management.

Capital adequacy and regulatory capital are monitored by the Group's management, employing techniques based on the guidelines developed by the Basel Committee, as implemented by the CBIRC, for supervisory purposes. The required information is filed with the CBIRC on a quarterly basis.

The Group's capital adequacy ratios are calculated in accordance with the *Capital Rules for Commercial Banks (Provisional)* and other relevant regulations. With the approval of the CBIRC, the Group adopts the advanced capital measurement approaches, which include Foundation Internal Ratings-based Approach for corporate exposures, Internal Ratings-based Approach for retail exposures, Internal Models Approach for market risk and Standardised Approach for operational risk. For risk exposures not covered by the advanced approaches, the corresponding portion shall be calculated adopting non-advanced approaches.

As a Systemically Important Bank, the Group's capital adequacy ratios are required to meet the lowest requirements of the CBIRC, that is, the common equity tier 1 capital adequacy ratio, tier 1 capital adequacy ratio and capital adequacy ratio should be no less than 8.50%, 9.50% and 11.50%, respectively.

The Group's regulatory capital is managed by its capital management related departments and consists of the following:

- Common equity tier 1 capital, including common shares, capital reserve, surplus reserve, general reserve, undistributed profits, eligible portion of minority interests and others;

- Additional tier 1 capital, including additional tier 1 capital instruments issued and related premium and eligible portion of minority interests;

- Tier 2 capital, including tier 2 capital instruments issued and related premium, excess loan loss provisions and eligible portion of minority interests.

Goodwill, other intangible assets (except land use rights), investments in common equity tier 1 capital of financial institutions with controlling interests but outside of the scope of regulatory consolidation, significant minority capital investment in tier 2 capital of financial institutions that are outside of the scope of regulatory consolidation and other deductible items are deducted from common equity tier 1 and tier 2 capital to derive at the regulatory capital.

VI FINANCIAL RISK MANAGEMENT (Continued)

7 Capital management (Continued)

The table below summarises the Group's common equity tier 1 capital adequacy ratio, tier 1 capital adequacy ratio and capital adequacy ratio[(1)] calculated in accordance with the *Capital Rules for Commercial Banks (Provisional)* and other relevant regulations.

	As at 31 December	
	2019	2018
Common equity tier 1 capital adequacy ratio	**11.30%**	11.41%
Tier 1 capital adequacy ratio	**12.79%**	12.27%
Capital adequacy ratio	**15.59%**	14.97%
Composition of the Group's capital base		
Common equity tier 1 capital	**1,620,563**	1,488,010
Common shares	**294,388**	294,388
Capital reserve	**134,269**	140,422
Surplus reserve	**173,832**	156,711
General reserve	**249,983**	231,416
Undistributed profits	**721,731**	637,609
Eligible portion of minority interests	**30,528**	28,229
Other [(2)]	**15,832**	(765)
Regulatory deductions	**(24,185)**	(22,241)
Of which:		
Goodwill	**(182)**	(182)
Other intangible assets (except land use rights)	**(12,936)**	(12,078)
Direct or indirect investments in own shares	**(7)**	(68)
Investments in common equity tier 1 capital of financial institutions with controlling interests but outside the scope of regulatory consolidation	**(9,955)**	(9,913)
Net common equity tier 1 capital	**1,596,378**	1,465,769
Additional tier 1 capital	**210,057**	109,524
Preference shares and related premium	**159,901**	99,714
Additional capital instruments and related premium	**39,992**	–
Eligible portion of minority interests	**10,164**	9,810
Net tier 1 capital	**1,806,435**	1,575,293
Tier 2 capital	**394,843**	347,473
Tier 2 capital instruments issued and related premium	**280,092**	256,189
Excess loan loss provisions	**105,127**	82,093
Eligible portion of minority interests	**9,624**	9,191
Regulatory deductions	**–**	(416)
Significant minority capital investment in tier 2 capital of financial institutions that are outside of the scope of regulatory consolidation	**–**	(416)
Net capital	**2,201,278**	1,922,350
Risk-weighted assets	**14,123,915**	12,841,526

VI FINANCIAL RISK MANAGEMENT (Continued)

7 Capital management (Continued)

(1) When calculating the capital adequacy ratios, BOCG Investment, Bank of China Insurance Company Limited ("BOC Insurance"), Bank of China Group Insurance Company Limited ("BOCG Insurance") and Bank of China Group Life Assurance Company Limited ("BOCG Life") were excluded from the scope of consolidation in accordance with the requirements of the CBIRC.

(2) This mainly represented exchange differences from the translation of foreign operations and gains/(losses) on financial assets at fair value through other comprehensive income.

8 Insurance risk

Insurance contracts are mainly sold in the Chinese mainland and Hong Kong denominated in RMB and HKD. The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. This risk is inherently random and, therefore, unpredictable. The Group manages its portfolio of insurance risks through its underwriting strategy and policies, portfolio management techniques, adequate reinsurance arrangements and proactive claims handling and processing. The underwriting strategy attempts to ensure that the underwritten risks are well diversified in terms of type and amount of risk and industry.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Group faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of the claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the level established using statistical techniques.

Uncertainty in the estimation of future benefit payments and premium receipts for long-term life insurance contracts arises from the unpredictability of long-term changes in overall levels of mortality. In order to assess the uncertainty due to the mortality assumption and lapse assumption, the Group conducted mortality rate studies and policy lapse studies in order to determine the appropriate assumptions.

(Amount in millions of Renminbi, unless otherwise stated)

I DIFFERENCES BETWEEN IFRS AND CAS CONSOLIDATED FINANCIAL STATEMENTS

There are no differences in the Group's operating results for the years ended 31 December 2019 and 2018 or total equity as at 31 December 2019 and 2018 presented in the Group's consolidated financial statements prepared under IFRS and those prepared under CAS.

II UNAUDITED SUPPLEMENTARY INFORMATION

1 Liquidity ratios, liquidity coverage ratio and net stable funding ratio

	As at 31 December	
	2019	2018
RMB current assets to RMB current liabilities	**54.56%**	58.71%
Foreign currency current assets to foreign currency current liabilities	**60.38%**	54.78%

The liquidity ratios are calculated in accordance with the relevant provisions of the CBIRC.

Liquidity coverage ratio

According to the *Measures for the Information Disclosure of Liquidity Coverage Ratio of Commercial Banks*, the Group disclosed the information of liquidity coverage ratio ("LCR")(1) as follows.

Regulatory requirements of liquidity coverage ratio

As stipulated by the *Rules on Liquidity Risk Management of Commercial Banks* issued by CBIRC, the minimum supervision standard for liquidity coverage ratio shall not be less than 100%.

The Group's liquidity coverage ratio

Since 2017, the Group measured the LCR on a day-to-day consolidated basis(2). In the fourth quarter of 2019, the Group measured 92-day LCR on this basis, with average ratio(3) standing at 136.36%, representing an increase of 1.60 percentage points over the previous quarter, which was primarily due to the increase in the high-quality liquid assets ("HQLA").

	2019			
	Quarter ended 31 December	Quarter ended 30 September	Quarter ended 30 June	Quarter ended 31 March
Average value of LCR	**136.36%**	**134.76%**	**137.95%**	**149.24%**

(Amount in millions of Renminbi, unless otherwise stated)

II UNAUDITED SUPPLEMENTARY INFORMATION (Continued)

1 Liquidity ratios, liquidity coverage ratio and net stable funding ratio (Continued)

The Group's liquidity coverage ratio (Continued)

The Group's average values[(3)] of consolidated LCR individual line items in the fourth quarter of 2019 are as follows:

No.		Total unweighted value	Total weighted value
High-quality liquid assets			
1	Total high-quality liquid assets (HQLA)		3,962,370
Cash outflows			
2	Retail deposits and deposits from small business customers, of which:	7,175,950	528,304
3	Stable deposits	3,655,623	176,271
4	Less stable deposits	3,520,327	352,033
5	Unsecured wholesale funding, of which:	8,654,416	3,292,153
6	Operational deposits (excluding those generated from correspondent banking activities)	4,733,637	1,167,817
7	Non-operational deposits (all counterparties)	3,871,915	2,075,472
8	Unsecured debts	48,864	48,864
9	Secured funding		2,011
10	Additional requirements, of which:	3,063,276	1,860,288
11	Outflows related to derivative exposures and other collateral requirements	1,755,675	1,755,675
12	Outflows related to loss of funding on debt products	–	–
13	Credit and liquidity facilities	1,307,601	104,613
14	Other contractual funding obligations	50,295	50,295
15	Other contingent funding obligations	2,323,849	54,129
16	**Total cash outflows**		5,787,180
Cash inflows			
17	Secured lending (including reverse repos and securities borrowing)	116,073	106,113
18	Inflows from fully performing exposures	1,418,757	898,223
19	Other cash inflows	1,974,771	1,873,490
20	**Total cash inflows**	3,509,601	2,877,826
			Total adjusted value
21	**Total HQLA**		3,962,370
22	**Total net cash outflows**		2,909,354
23	**Liquidity coverage ratio**		136.36%

(1) The LCR aims to ensure that commercial banks have sufficient HQLA that can be converted into cash to meet the liquidity requirements for at least thirty days under stress scenarios determined by the CBIRC.

(2) When calculating the consolidated LCR, BOCG Investment, BOC Insurance, BOCG Insurance and BOCG Life were excluded from the scope of consolidation in accordance with the requirements of the CBIRC.

(3) The average of LCR and the averages of all related individual items are the day-end simple arithmetic averages of figures over each quarter.

II UNAUDITED SUPPLEMENTARY INFORMATION (Continued)

1 Liquidity ratios, liquidity coverage ratio and net stable funding ratio (Continued)

Net stable funding ratio

In accordance with the *Measures for the Disclosure of Information on Net Stable Funding Ratio by Commercial Banks*, the Group disclosed the information of net stable funding ratio ("NSFR")(1) as follows.

Regulatory requirements of net stable funding ratio

As stipulated by the *Rules on Liquidity Risk Management of Commercial Banks* issued by CBIRC, the NSFR should be equal to at least 100% on an ongoing basis since 1 July 2018.

The Group's net stable funding ratio

As stipulated by the *Measures for the Disclosure of Information on Net Stable Funding Ratio by Commercial Banks* issued by CBIRC, banks approved to implement the advanced approaches of capital measurement by CBIRC in accordance with *Rules on Capital Management of Commercial Banks (Tentative)* shall disclose the information of net stable funding ratio for the preceding two consecutive quarters at least semi-annually.

As at 31 December 2019, the Group's NSFR was 124.46% on a consolidated basis(2), representing a decrease of 0.82 percentage point over the previous quarter. As at 30 September 2019, the Group's NSFR was 125.28%, representing a decrease of 1.53 percentage points over the previous quarter. The Group's NSFR remained stable, and met the regulatory requirement.

	2019			
	Quarter ended 31 December	Quarter ended 30 September	Quarter ended 30 June	Quarter ended 31 March
Ending value of NSFR(3)	**124.46%**	**125.28%**	**126.81%**	**126.75%**

(1) NSFR is introduced to ensure commercial banks have sufficient stable funding to meet the requirements of assets and off-balance sheet exposures.

(2) When calculating the consolidated NSFR, BOCG Investment, BOC Insurance, BOCG Insurance and BOCG Life were excluded from the scope of consolidation in accordance with the requirements of the CBIRC.

(3) NSFR are the ending values of each quarter.

(Amount in millions of Renminbi, unless otherwise stated)

II UNAUDITED SUPPLEMENTARY INFORMATION (Continued)

1 Liquidity ratios, liquidity coverage ratio and net stable funding ratio (Continued)

The Group's net stable funding ratio (Continued)

The Group's consolidated NSFR individual line items at the end of the fourth quarter of 2019 are as follows:

		Unweighted value				
No.	Items	No maturity	<6 months	6–12 months	≥1 year	Weighted value
Available Stable Funding (ASF) Item						
1	Capital	–	–	–	2,145,900	2,145,900
2	Regulatory capital	–	–	–	2,070,970	2,070,970
3	Other capital instruments	–	–	–	74,930	74,930
4	Retail deposits and deposits from small business customers	3,892,369	3,954,442	116,983	19,928	7,383,810
5	Stable deposits	1,635,679	2,240,551	53,123	8,287	3,741,173
6	Less stable deposits	2,256,690	1,713,891	63,860	11,641	3,642,637
7	Wholesale funding	4,797,417	5,545,346	908,553	494,666	4,995,038
8	Operational deposits	4,446,337	333,937	–	–	2,390,137
9	Other wholesale funding	351,080	5,211,409	908,553	494,666	2,604,901
10	Liabilities with matching interdependent assets	–	–	–	–	–
11	Other liabilities	75,617	199,732	4,922	408,423	316,106
12	NSFR derivatives liabilities				94,777	
13	All other liabilities and equity not included in the above categories	75,617	199,732	4,922	313,646	316,106
14	**Total ASF**					14,840,854
Required Stable Funding (RSF) Item						
15	Total NSFR high-quality liquid assets					607,090
16	Deposits held at other financial institutions for operational purposes	94,942	19,670	–	–	57,306
17	Loans and securities	61,942	4,493,443	1,939,578	8,537,927	9,913,026
18	Loans to financial institutions secured by Level 1 assets	–	9,678	–	–	968
19	Loans to financial institutions secured by non-Level 1 assets and unsecured loans to financial institutions	61,942	1,296,940	297,022	112,532	464,875
20	Loans to retail and small business customers, non-financial institutions, sovereigns, central banks and public sector entities (PSEs) of which:	–	2,483,840	1,432,902	4,257,280	5,497,219
21	With a risk weight of less than or equal to 35%	–	176,090	7,107	4,261	16,635

II UNAUDITED SUPPLEMENTARY INFORMATION (Continued)

1 Liquidity ratios, liquidity coverage ratio and net stable funding ratio (Continued)

The Group's net stable funding ratio (Continued)

The Group's consolidated NSFR individual line items at the end of the fourth quarter of 2019 are as follows (Continued):

		Unweighted value				
No.	**Items**	**No maturity**	**<6 months**	**6–12 months**	**≥1 year**	**Weighted value**
	Required Stable Funding (RSF) Item (Continued)					
22	Residential mortgages of which:	–	102,000	90,389	3,836,062	3,307,594
23	With a risk weight of less than or equal to 35%	–	5,825	5,937	246,263	165,952
24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	–	600,985	119,265	332,053	642,370
25	Assets with matching interdependent liabilities	–	–	–	–	–
26	Other assets	617,391	102,745	790	516,505	1,107,412
27	Physical traded commodities, including gold	209,955				178,462
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs				239	203
29	NSFR derivatives assets				101,894	7,117
30	NSFR derivatives liabilities with additional requirements				18,955*	18,955
31	All other assets not included in the above categories	407,436	102,745	790	414,372	902,675
32	Off-balance sheet items				6,041,880	239,017
33	**Total RSF**					**11,923,851**
34	**NSFR**					**124.46%**

* Report derivative liabilities before deducting variation margin posted. There is no need to differentiate by maturities. The unweighted value should be excluded from the total value of item No.26 "Other assets".

(Amount in millions of Renminbi, unless otherwise stated)

II UNAUDITED SUPPLEMENTARY INFORMATION (Continued)

1 Liquidity ratios, liquidity coverage ratio and net stable funding ratio (Continued)

The Group's net stable funding ratio (Continued)

The Group's consolidated NSFR individual line items at the end of the third quarter of 2019 are as follows:

		Unweighted value				
No.	Items	No maturity	<6 months	6–12 months	≥1 year	Weighted value
	Available Stable Funding (ASF) Item					
1	Capital	–	–	–	2,131,547	2,131,547
2	Regulatory capital	–	–	–	2,056,617	2,056,617
3	Other capital instruments	–	–	–	74,930	74,930
4	Retail deposits and deposits from small business customers	3,955,848	3,865,334	129,008	7,685	7,356,824
5	Stable deposits	1,623,087	2,202,415	53,834	3,035	3,688,405
6	Less stable deposits	2,332,761	1,662,919	75,174	4,650	3,668,419
7	Wholesale funding	4,724,948	5,488,317	915,810	506,581	5,007,443
8	Operational deposits	4,392,785	349,197	–	–	2,370,990
9	Other wholesale funding	332,163	5,139,120	915,810	506,581	2,636,453
10	Liabilities with matching interdependent assets	–	–	–	–	–
11	Other liabilities	77,588	173,526	4,074	445,791	306,859
12	NSFR derivatives liabilities				140,968	
13	All other liabilities and equity not included in the above categories	77,588	173,526	4,074	304,823	306,859
14	**Total ASF**					14,802,673
	Required Stable Funding (RSF) Item					
15	Total NSFR high-quality liquid assets					623,655
16	Deposits held at other financial institutions for operational purposes	64,269	5,713	–	–	34,991
17	Loans and securities	62,425	4,452,699	2,243,116	8,263,590	9,788,949
18	Loans to financial institutions secured by Level 1 assets	–	10,759	–	–	1,076
19	Loans to financial institutions secured by non-Level 1 assets and unsecured loans to financial institutions	62,425	1,386,184	326,912	79,814	460,562
20	Loans to retail and small business customers, non-financial institutions, sovereigns, central banks and public sector entities (PSEs) of which:	–	2,538,976	1,457,972	4,161,028	5,460,922
21	With a risk weight of less than or equal to 35%	–	169,778	7,546	6,598	21,054

II UNAUDITED SUPPLEMENTARY INFORMATION (Continued)

1 Liquidity ratios, liquidity coverage ratio and net stable funding ratio (Continued)

The Group's net stable funding ratio (Continued)

The Group's consolidated NSFR individual line items at the end of the third quarter of 2019 are as follows (Continued):

		Unweighted value				
No.	Items	No maturity	<6 months	6–12 months	≥1 year	Weighted value
Required Stable Funding (RSF) Item (Continued)						
22	Residential mortgages of which:	–	131,591	119,881	3,659,945	3,196,236
23	With a risk weight of less than or equal to 35%	–	47,793	33,734	202,265	172,236
24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	–	385,189	338,351	362,803	670,153
25	Assets with matching interdependent liabilities	–	–	–	–	–
26	Other assets	647,395	82,079	557	580,245	1,141,046
27	Physical traded commodities, including gold	251,378				213,671
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs				282	240
29	NSFR derivatives assets				157,279	16,311
30	NSFR derivatives liabilities with additional requirements				28,194*	28,194
31	All other assets not included in the above categories	396,017	82,079	557	422,684	882,630
32	Off-balance sheet items				5,786,886	227,453
33	**Total RSF**					**11,816,094**
34	**NSFR**					**125.28%**

* Report derivative liabilities before deducting variation margin posted. There is no need to differentiate by maturities. The unweighted value should be excluded from the total value of item No.26 "Other assets".

II UNAUDITED SUPPLEMENTARY INFORMATION (Continued)

2 Currency concentrations

The following information is computed in accordance with the provisions of the CBIRC.

	Equivalent in millions of RMB			
	USD	HKD	Other	Total
As at 31 December 2019				
Spot assets	**3,784,665**	**1,633,488**	**1,693,247**	**7,111,400**
Spot liabilities	**(4,215,368)**	**(1,916,106)**	**(1,510,286)**	**(7,641,760)**
Forward purchases	**5,535,200**	**764,557**	**1,300,956**	**7,600,713**
Forward sales	**(5,025,682)**	**(508,295)**	**(1,486,820)**	**(7,020,797)**
Net options position*	**(43,404)**	**193**	**(1,455)**	**(44,666)**
Net long/(short) position	**35,411**	**(26,163)**	**(4,358)**	**4,890**
Structural position	**52,219**	**207,904**	**72,658**	**332,781**
As at 31 December 2018				
Spot assets	3,679,148	1,488,089	1,445,560	6,612,797
Spot liabilities	(4,207,568)	(1,863,120)	(1,406,375)	(7,477,063)
Forward purchases	6,113,388	750,992	1,195,354	8,059,734
Forward sales	(5,492,047)	(409,454)	(1,245,872)	(7,147,373)
Net options position*	(40,858)	(258)	(1,885)	(43,001)
Net long/(short) position	52,063	(33,751)	(13,218)	5,094
Structural position	52,685	219,887	70,141	342,713

* The net option position is calculated in accordance with the relevant provisions of the CBIRC.

II UNAUDITED SUPPLEMENTARY INFORMATION (Continued)

3 International claims

The Group discloses international claims according to Banking (Disclosure) Rules (L.N. 160 of 2014). International claims are risk exposures generated from the countries or geographical areas where the counterparties take the ultimate risk while considering the transfer of the risk, exclude local claims on local residents in local currency. Risk transfer is only made if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a counterparty whose head office is located in another country.

International claims include "Balances with central banks", "Due from and placements with and loans to banks and other financial institutions", "Government certificates of indebtedness for bank notes issued", "Loans and advances to customers" and "Financial investments", etc.

International claims have been disclosed by major countries or geographical areas. A country or geographical area is reported where it constitutes 10% or more of the aggregate amount of international claims, after taking into account any risk transfers.

	Banks	Official sector	Non-bank private sector	Total
As at 31 December 2019				
Asia Pacific				
Chinese mainland	**609,837**	**224,384**	**695,975**	**1,530,196**
Hong Kong	**21,328**	**116**	**511,403**	**532,847**
Other Asia Pacific locations	**91,641**	**144,997**	**419,521**	**656,159**
Subtotal	**722,806**	**369,497**	**1,626,899**	**2,719,202**
North and South America	**99,213**	**255,953**	**152,444**	**507,610**
Other	**72,504**	**72,533**	**252,889**	**397,926**
Total	**894,523**	**697,983**	**2,032,232**	**3,624,738**
As at 31 December 2018				
Asia Pacific				
Chinese mainland	608,194	418,266	701,782	1,728,242
Hong Kong	18,193	1	469,543	487,737
Other Asia Pacific locations	80,097	33,887	371,850	485,834
Subtotal	706,484	452,154	1,543,175	2,701,813
North and South America	59,618	224,329	145,386	429,333
Other	54,341	77,159	234,936	366,436
Total	820,443	753,642	1,923,497	3,497,582

(Amount in millions of Renminbi, unless otherwise stated)

II UNAUDITED SUPPLEMENTARY INFORMATION (Continued)

4 Overdue assets

For the purpose of the table below, the entire outstanding balance of "Loans and advances to customers" and "Placements with and loans to banks and other financial institutions" are considered overdue if either principal or interest payment is overdue.

4.1 Total amount of overdue loans and advances to customers

	As at 31 December	
	2019	2018
Total loans and advances to customers which have been overdue		
within 3 months	**62,838**	84,754
between 3 and 6 months	**22,789**	24,673
between 6 and 12 months	**22,653**	45,816
over 12 months	**54,349**	64,708
Total	**162,629**	219,951
Percentage		
within 3 months	**0.48%**	0.72%
between 3 and 6 months	**0.17%**	0.21%
between 6 and 12 months	**0.18%**	0.39%
over 12 months	**0.42%**	0.55%
Total	**1.25%**	1.87%

4.2 Total amount of overdue Placements with and loans to banks and other financial institutions

The total amount of overdue "Placements with and loans to banks and other financial institutions" as at 31 December 2019 and 2018 is not considered material.

5 Leverage ratio

The leverage ratios of the Group calculated in accordance with the *Administrative Measures for the Leverage Ratio of Commercial Banks (Revised)* and the *Capital Rules for Commercial Banks (Provisional)* are as follows[(1)]:

	2019			
	As at 31 December	As at 30 September	As at 30 June	As at 31 March
Net tier 1 capital	1,806,435	1,823,977	1,749,305	1,662,406
Adjusted on- and off-balance sheet assets	24,303,201	24,085,613	23,813,940	23,032,078
Leverage ratio	7.43%	7.57%	7.35%	7.22%

II UNAUDITED SUPPLEMENTARY INFORMATION (Continued)

5 Leverage ratio (Continued)

No.	Items	As at 31 December 2019
1	Total consolidated assets	**22,769,744**
2	Adjustments that are consolidated for accounting purposes but outside the scope of regulatory consolidation	**(9,955)**
3	Adjustments for fiduciary assets	**–**
4	Adjustments for derivative financial instruments	**129,062**
5	Adjustments for securities financing transactions	**117,131**
6	Adjustments for off-balance sheet exposures	**1,686,949**
7	Other adjustments	**(389,730)**
8	Adjusted on- and off-balance sheet assets	**24,303,201**

No.	Items	As at 31 December 2019
1	On-balance sheet assets (excluding derivatives and securities financing transactions)	**22,146,521**
2	Less: Tier 1 capital deductions	**(24,185)**
3	**Total on-balance sheet exposures (excluding derivatives and SFTs)**	**22,122,336**
4	Replacement cost associated with all derivative transactions (i.e. net of eligible cash variation margin)	**93,226**
5	Add-on amounts for potential future exposure associated with all derivative transactions	**128,753**
6	Gross-up for derivative collateral provided where deducted from the balance sheet assets	**–**
7	Less: Deductions of receivable assets for cash variation margin provided in derivative transactions	**–**
8	Less: Exempted CCP leg of client-cleared trade exposures	**–**
9	Adjusted effective notional amount of written credit derivatives	**465**
10	Less: Deductible amounts for written credit derivatives	**(47)**
11	**Total derivative exposures**	**222,397**
12	Accounting balance for securities financing transaction assets	**154,049**
13	Less: Deducted amounts for securities financing transaction assets	**–**
14	Counterparty credit risk exposure for securities financing transaction assets	**117,470**
15	Agent transaction exposures	**–**
16	**Balance of assets in securities financing transactions**	**271,519**
17	Off-balance sheet items	**4,787,188**
18	Less: Adjustments for conversion to credit equivalent amounts	**(3,100,239)**
19	**Adjusted off-balance sheet exposures**	**1,686,949**
20	Net tier 1 capital	**1,806,435**
21	Adjusted on- and off-balance sheet exposures	**24,303,201**
22	**Leverage ratio**	**7.43%**

(1) When calculating the consolidated leverage ratio, BOCG Investment, BOC Insurance, BOCG Insurance and BOCG Life were excluded from the scope of consolidation in accordance with the *Capital Rules for Commercial Banks (Provisional)*.

(Amount in millions of Renminbi, unless otherwise stated)

II UNAUDITED SUPPLEMENTARY INFORMATION (Continued)

6 Global systemic importance assessment indicators of commercial banks

The following global systemic importance assessment indicators of commercial banks are disclosed in accordance with the *Guidelines for the Disclosure of Global Systemic Importance Assessment Indicators of Commercial Banks* (Yin Jian Fa, [2014] No.1).

No.	Indicators[(1)]	2019 value
1	Adjusted on-balance and off-balance sheet assets	**24,303,201**
2	Intra-financial system assets	**2,101,540**
3	Intra-financial system liabilities	**1,972,706**
4	Securities and other financing instruments	**3,938,510**
5	Payments settled via payment systems or correspondent banks	**624,289,447**
6	Assets under custody	**11,119,177**
7	Underwritten transactions in debt and equity markets	**1,861,559**
8	Notional amount of over-the-counter derivatives	**10,632,811**
9	Trading and available for sale securities	**1,125,572**
10	Level 3 assets	**62,976**
11	Cross-jurisdictional claims	**3,895,282**
12	Cross-jurisdictional liabilities	**4,537,599**

(1) The above indicators are calculated and disclosed in accordance with the *Guidelines for the Disclosure of Global Systemic Importance Assessment Indicators of Commercial Banks*, which are unaudited and inconsistent with the disclosures in the financial report.

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Appendix 2

Pricing Supplement of the Issuer dated 2 November 2021

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

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

Notification under Section 309B(1)(c) of the Securities and Futures Act (Chapter 289) of Singapore (the **SFA) -** In connection with Section 309B of the SFA and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the **CMP Regulations 2018**), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are prescribed capital markets products (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

Pricing Supplement dated 2 November 2021

Amipeace Limited

Legal entity identifier (LEI): 549300Z8IOSIIKWF5763

Issue of U.S.$600,000,000 1.75 per cent. Notes due 2026
under the HK$20,000,000,000 Medium Term Note Programme

The document constitutes the Pricing Supplement relating to the issue of Notes described herein.

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the **Conditions**) set forth in the offering circular dated 19 October 2021 (the **Offering Circular**). This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with the Offering Circular and the additional disclosure relevant to the Notes in the Schedules hereof.

1.	(a)	Issuer:	Amipeace Limited

	(b)	Company:	Bank of China Group Investment Limited
2.	Guarantor:		Bank of China Limited, Macau Branch (the **Guarantor**)
3.	(a)	Series Number:	007
	(b)	Tranche Number:	001
4.	Specified Currency or Currencies:		United States Dollars (**U.S.$**)
5.	Aggregate Nominal Amount:		U.S.$600,000,000
	(a)	Series:	U.S.$600,000,000
	(b)	Tranche:	U.S.$600,000,000
6.	(a)	Issue Price:	99.222 per cent. of the Aggregate Nominal Amount
	(b)	Gross Proceeds:	Approximately U.S.$595,332,000
7.	(a)	Specified Denominations:	U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof
	(b)	Calculation Amount:	U.S.$1,000
8.	(a)	Issue Date:	9 November 2021
	(b)	Interest Commencement Date:	Issue Date
9.	Maturity Date:		9 November 2026
10.	Interest Basis:		1.75 per cent. Fixed Rate (further particulars specified below)
11.	Redemption/Payment Basis:		Redemption at par
12.	Change of Interest or Redemption/Payment Basis:		Not Applicable
13.	Put/Call Options:		Not Applicable
14.	Date of approval for issuance of Notes and Guarantee obtained:		The issuance of Notes under the Programme was authorised by resolutions of the board of directors of the Issuer dated 28 September 2021 and by resolutions of the board of directors of the Company dated 28 September 2021. The giving of the Guarantee was authorised by internal approval of Bank of China Limited dated 9 October 2021.
15.	Listing:		Application will be made to the SEHK. Admission to the listing of the Notes on the SEHK shall not be taken as an indication of the merits of the Programme, the Notes, the

		Issuer, the Company, the Guarantor, the Bank or the Group, or quality of disclosure in this document.
16.	Method of distribution:	Syndicated

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

17.	**Fixed Rate Note Provisions**		Applicable
	(a)	Rate of Interest:	1.75 per cent. per annum payable semi-annually in arrear
	(b)	Interest Payment Date(s):	9 May and 9 November in each year, commencing on 9 May 2022 and ending on the Maturity Date
	(c)	Fixed Coupon Amount:	U.S.$8.75 per Calculation Amount
	(d)	Broken Amount:	Not Applicable
	(e)	Day Count Fraction:	30/360
	(f)	Other terms relating to the method of calculating interest for Fixed Rate Notes:	Not Applicable
18.	**Floating Rate Note Provisions**		Not Applicable
19.	**Zero Coupon Note Provisions**		Not Applicable
20.	**Index-Linked Interest Note/other variable-linked interest Note Provisions**		Not Applicable
21.	**Dual Currency Note Provisions**		Not Applicable

PROVISIONS RELATING TO REDEMPTION

22.	**Call Option**	Not Applicable
23.	**Put Option**	Not Applicable
24.	**Final Redemption Amount of each Note**	U.S.$1,000 per Calculation Amount
25.	**Early Redemption Amount**	
	Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons or on event of default or other early redemption and/or the method of calculating the same (if required or if different from that set out in the Conditions):	U.S.$1,000 per Calculation Amount

GENERAL PROVISIONS APPLICABLE TO THE NOTES

26.	**Form of Notes:**	**Registered Notes:** Global Note Certificate exchangeable for Individual Note Certificates in the limited circumstances described in the Global Note Certificate
27.	Additional Financial Centre(s) or other special provisions relating to payment dates:	Hong Kong
28.	Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature):	Not Applicable
29.	Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment:	Not Applicable
30.	Details relating to Instalment Notes: amount of each instalment, date on which each payment is to be made:	Not Applicable
31.	Redenomination, renominalisation and reconventioning provisions:	Not Applicable
32.	Consolidation provisions:	The provisions in Condition 19 (Further Issues) apply
33.	Any applicable currency disruption/fallback provisions:	Not Applicable
34.	Other terms or special conditions:	Not Applicable

DISTRIBUTION

35.	(a) If syndicated, names of Managers:	Bank of China Limited, Bank of China (Hong Kong) Limited, BOCI Asia Limited, J.P. Morgan Securities plc, UBS AG Hong Kong Branch, ABCI Capital Limited, Agricultural Bank of China Limited Hong Kong Branch, Bank of Communications Co., Ltd. Hong Kong Branch, China Construction Bank (Asia) Corporation Limited, China Everbright Bank Co., Ltd., Hong Kong Branch, Crédit Agricole Corporate and Investment Bank, Industrial and Commercial Bank of China (Asia) Limited, Industrial Bank Co., Ltd. Hong Kong Branch, Nanyang Commercial Bank, Limited and Oversea-Chinese Banking Corporation Limited (the **Managers**)

	(b) Stabilisation Manager(s) (if any):	Any of the Managers appointed and acting in its capacity as stabilisation manager
36.	(If non-syndicated, name and address of Dealer:	Not Applicable
37.	Private Bank Rebate/Commission:	Not Applicable
38.	Total commission and concession:	The Issuer (or, in default, the Company) shall pay to each Manager a management commission as shall be notified by the Issuer to such Manager in separate fee letters.
39.	U.S. Selling Restrictions:	Reg. S Category 2; TEFRA not applicable
40.	Additional selling restrictions:	Not Applicable
41.	Prohibition of Sales to EEA Retail Investors:	Not Applicable
42.	Prohibition of Sales to UK Retail Investors:	Not Applicable

OPERATIONAL INFORMATION

43.	ISIN Code:	XS2390145006
44.	Common Code:	239014500
45.	CMU Instrument Number	Not Applicable
46.	Any clearing system(s) other than Euroclear/Luxembourg and the CMU Service and the relevant identification number(s):	Not Applicable
47.	Delivery:	Delivery against payment
48.	Additional Paying Agent(s) (if any):	Not Applicable

GENERAL

49.	Ratings:	The Notes to be issued are expected to be rated: Fitch: A; and Moody's: A1

USE OF PROCEEDS

The net proceeds of the issue of the Notes will be used to finance and/or refinance eligible green projects as defined in the Bank of China Group Investment Limited Green Bonds Management Statement.

STABILISATION

In connection with this issue, any of the Managers appointed and acting in its capacity as stabilisation manager (the **Stabilisation Manager**) (or persons acting on behalf of any Stabilisation Manager) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilisation Manager (or persons acting on behalf of a Stabilisation Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilisation Manager (or persons acting on behalf of any Stabilisation Manager) in accordance with all applicable laws and rules.

PURPOSE OF PRICING SUPPLEMENT

This Pricing Supplement comprises the final terms required for issue and admission to trading on the SEHK of the Notes described herein pursuant to the HK$20,000,000,000 Medium Term Note Programme.

RESPONSIBILITY

The Issuer and the Company accept responsibility for the information contained in this Pricing Supplement.

Signed on behalf of Amipeace Limited:

By: ....
Duly authorised

Signed on behalf of Bank of China Group Investment Limited:

By: ....
Duly authorised

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

Signed on behalf of Bank of China Limited, Macau Branch:

By: ....

Duly authorised

SCHEDULE 1

The principal risk factors that may affect the ability of the Issuer or the Guarantor to fulfil its respective obligations in respect of the Notes are discussed under "Risk Factors" in the Offering Circular. In addition, the section "Risk Factors" in the Offering Circular shall be supplemented with the following:

RISK FACTORS RELATED TO NOTES BEING ISSUED AS GREEN BONDS

The Notes being issued as Green Bonds may not be a suitable investment for all investors seeking exposure to green assets

The Company has requested the Hong Kong Quality Assurance Agency (the **HKQAA**) to issue an independent certification (the **HKQAA Pre-issuance Stage Certificate**) for the issues of the Green Bonds, confirming that the issue of the Green Bonds will be in compliance with the requirements of the Green Finance Certification Scheme operated by the HKQAA (the **HKQAA Green Finance Certification Scheme**).

The HKQAA Pre-issuance Stage Certificate is not incorporated into, and does not form part of, this Pricing Supplement. The Bank of China Group Investment Limited Green Bonds Management Statement (the **Management Statement**) and the HKQAA Pre-issuance Stage Certificate are not recommendations to buy, sell or hold securities and are only current as of their respective dates of issue and are subject to certain disclaimers set out therein. Furthermore, each of the Management Statement and the HKQAA Pre-issuance Stage Certificate is for information purposes only and none of the Managers accepts any form of liability for the substance of the Management Statement and the HKQAA Pre-issuance Stage Certificate and/or any liability for loss arising from the use of the Management Statement and the HKQAA Pre-issuance Stage Certificate and/or the information provided in it.

Whilst the Issuer and the Company have agreed to certain obligations relating to reporting and use of proceeds as described under the "*Bank of China Group Investment Limited Green Bonds Management Statement – October 2021*" in Schedule 2, it would not be an Event of Default under the Terms and Conditions of the Notes if (i) the Issuer, the Company or the Guarantor were to fail to comply with such obligations or were to fail to use the proceeds of the issue of the Green Bonds in the manner specified in this Pricing Supplement and/or (ii) the HKQAA Pre-issuance Stage Certificate issued in connection with such Green Bonds were to be withdrawn. Any failure to use the net proceeds of the issue of the Green Bonds in connection with green projects or other equivalently-labelled projects, and/or any failure to meet, or to continue to meet, the investment requirements of certain environmentally focused investors with respect to such Green Bonds, may affect the value and/or trading price of the Green Bonds, and/or may have consequences for certain investors with portfolio mandates to invest in green assets or equivalently-labelled assets.

None of the Issuer, the Company, the Guarantor or the Managers makes any representation as to the suitability for any purpose of the HKQAA Pre-issuance Stage Certificate or whether the Green Bonds fulfil the relevant environmental and/or other criteria. Each potential purchaser of the Green Bonds should (i) have regard to the relevant projects and eligibility criteria described under the "*Bank of China Group Investment Limited Green Bonds Management Statement – October 2021*" in Schedule 2 and (ii) determine for itself the relevance of the information contained in this Pricing Supplement regarding the use of proceeds, and its purchase of any Green Bonds should be based upon such investigation as it deems necessary. The Management Statement and the HKQAA Pre-issuance Stage Certificate have been made available to investors on the Company's website (http://www.bocgi.com/sc/news/2021).

SCHEDULE 2

Bank of China Group Investment Limited Green Bonds Management Statement – October 2021

Introduction

Bank of China Group Investment Limited ("**BOCGI**" or the "**Company**", and together with its subsidiaries, referred to herein as the "**BOCGI Group**") is responsible for the preparation and fair presentation of this green bonds Management Statement (the "**Statement**"). Bank of China Group Investment Limited was incorporated in Hong Kong as a wholly-owned subsidiary of Bank of China Limited ("**BOC**"). BOCGI operates direct investment and investment management businesses. BOCGI's business scope includes private equity investment, fund investment and management, real estate investment and management and special situation investment.

Purpose

This Statement has been prepared to demonstrate how BOCGI will directly issue green bonds ("**Green Bonds**") in alignment with the *Green Bond Principles 2021*[1] *dated June 2021 published by the International Capital Market Association or as they may be subsequently amended* ("**GBP**") and BOCGI's internal Green Investment Guidelines to fund new and existing projects and businesses with environmental benefits.

Assertions from the Management

For each issuance of Green Bonds, BOCGI's management asserts that it will, (A) disclose the intended Eligible Project categories in the "Use of Proceeds" section of the Green Bonds' documentation, (B) establish a thorough internal process for Project Evaluation and Selection in accordance with BOCGI's internal Green Investment Guidelines, (C) establish an appropriate process for the Management of Proceeds, and (D) annually perform and keep readily available an up-to-date report on the use of proceeds and the environmental and/or social performance of the Eligible Projects, as per the recommendations of GBP.

Green Bonds Management Statement and Alignment with ICMA Principles and BOCGI's Green Investment Guidelines

BOCGI's Green Bonds Management Statement is aligned with GBP and BOCGI's internal Green Investment Guidelines. The Green Bonds Management Statement sets out how BOCGI intends to issue Green Bonds to finance projects that have a positive environmental impact while supporting its business strategy. The proceeds of the Green Bonds are applied to eligible green projects ("**Eligible Projects**") as defined in this statement.

I. Use of Proceeds

All the net proceeds of the Green Bonds will be allocated to the Eligible Projects, including other related and supporting expenditures, such as R&D or the associated costs of issuance. The net proceeds will be used for the financing or the refinancing of Eligible Projects, including without limitation, the refinancing of existing debt in relation to such projects. Refinancing of Eligible Projects will have a look-back period of no longer than 36 months from the time of issuance. The Eligible Projects include but is not limited to:

- **Renewable energy** (including the production, and transmission of renewable energy, the manufacturing of renewable energy appliances and products whereas renewable energy includes solar and wind);

[1] https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/green-bond-principles-gbp/

- **Energy efficiency** (such as in new and refurbished buildings, energy storage, district heating, smart grids, appliances and products);

- **Pollution prevention and control** (including reduction of air emissions, greenhouse gas control, soil remediation, waste prevention, waste reduction, waste recycling and energy/emission-efficient waste to energy);

- **Environmentally sustainable management of living natural resources and land use** (including environmentally sustainable agriculture; environmentally sustainable animal husbandry; climate smart farm inputs such as biological crop protection or drip-irrigation; environmentally sustainable fishery and aquaculture; environmentally sustainable forestry, including afforestation or reforestation, and preservation or restoration of natural landscapes);

- **Terrestrial and aquatic biodiversity** conservation (including the protection of coastal, marine and watershed environments);

- **Clean transportation** (such as electric, public, rail, non-motorised, multi-modal transportation, infrastructure for clean energy vehicles and reduction of harmful emissions);

- **Sustainable water and wastewater management** (including sustainable infrastructure for clean and/or drinking water, wastewater treatment, sustainable urban drainage systems and river training and other forms of flooding mitigation);

- **Climate change adaptation** (including efforts to make infrastructure more resilient to impacts of climate change, as well as information support systems, such as climate observation and early warning systems);

- **Circular economy adapted products, production technologies and processes** (such as the design and introduction of reusable, recyclable and refurbished materials, components and products; circular tools and services); **and/or certified eco-efficient products**; and

- **Green buildings** that meet regional, national or internationally recognized standards or certifications for environmental performance.

In any case, Eligible Projects exclude the following categories:

- Fossil fuel dedicated assets;

- Biofuels, biogas or biomass which utilize food crops as sources;

- Nuclear related projects;

- Mining and quarrying related projects; and

- Other Projects on the IFC Exclusion List[2].

II. Project Evaluation and Selection

BOCGI shall follow the procedures below to evaluate and select the Eligible Projects:

1. Preliminary Screening

Based on the project compliance documents (including but not limited to feasibility study report and

[2] http://www.ifc.org/exclusionlist

approval, environmental impact assessment report and approval, the project proposal and approval etc.), and referring to criteria and standards of Eligible Project categories defined in the "Use of Proceeds" section, BOCGI's project manager shall conduct preliminary screening of eligible projects, to form the list of nominated projects and submit to BOCGI's Senior Management for further review.

2. Review and Approval

BOCGI's Senior Management shall review each of the nominated projects in accordance with BOCGI's Green Investment Guidelines. Approval will be granted to nominated projects aligned with BOCGI's Green Investment Guidelines. The approved projects will be included in the Eligible Project list (the "**Eligible Project List**").

3. Update and Maintenance

BOCGI's Senior Management shall review the Eligible Project List on a quarterly basis and determine if any changes are necessary (for example, if a project has become ineligible due to amortization, sale or other reasons). If such changes are necessary, the Senior Management shall instruct the project manager to nominate new projects, and approve the eligible ones to replace projects that have become ineligible. The newly nominated projects will also be in alignment with BOCGI's Green Investment Guidelines.

III. Management of Proceeds

BOCGI will allocate the net proceeds of the Green Bonds to the Eligible Projects through various portfolios. BOCGI's Senior Management has established an effective mechanism to manage the proceeds, ensuring that the proceeds from the Green Bond will be used to fund the Eligible Projects.

1. Planning for Use of Proceeds

Before the issuance of Green Bonds, BOCGI shall develop the preliminary Eligible Project List as per the section titled "II. Project Evaluation and Selection" in this Statement to ensure that the proceeds from Green Bonds can be allocated to Eligible Projects in a timely manner.

2. Management of Separate Ledger

BOCGI shall record the source and allocation of proceeds in a separate ledger to ensure that the net proceeds of the Green Bonds are used to fund Eligible Projects. The ledger shall contain detailed information of the net proceeds (including the ISIN code, the issue amount, the coupon rate, the issue date and the maturity date of the Green Bonds) and the investment projects (including the project name, the description of the invested company, the category of the invested company, the balance, and the investment date). BOCGI will review and update the ledger on a quarterly basis. Any proceeds allocated to the projects that have been amortized, sold or otherwise become ineligible shall be reallocated to newly nominated and approved Eligible Projects.

3. Use of Unallocated Proceeds

Unallocated proceeds shall not be invested in greenhouse gas (GHG) intensive, highly polluting nor energy intensive projects. The unallocated proceeds could be held by the BOCGI Group in accordance with the BOCGI Group's financial and liquidity management policies.

IV. Reporting

BOCGI will prepare an allocation report ("**Allocation Report**") at least annually until the net proceeds are almost completely allocated and on a timely basis in case of material developments, and will prepare an environmental impact report ("**Impact Report**") at least once during the tenor of the Green

Bonds after full allocation. Impact Report of the invested Eligible Projects and Allocation Report will be published on its official website (www.bocgi.com). BOCGI intends to maintain transparency of information disclosure following the best practices recommended by GBP and its internal Green Investment Guidelines. The following contents will be disclosed:

1. Allocation Report should contain the following information:

- A brief description of the Eligible Projects to which the Green Bond proceeds were allocated, including information necessary to determine alignment with the eligibility criteria such as green building certification and energy performance data;

- Aggregate amount of proceeds of each Green Bond allocated to Eligible Projects;

- Unallocated balance of proceeds of Green Bonds; and

- Detailed information of each Green Bond that is outstanding, including issuance date, maturity date, amount, interest rate, etc.

2. The expected environmental impacts of the Eligible Projects to which the Green Bond proceeds have been allocated. BOCGI will adopt certain quantitative performance measures of certain categories, where feasible, and disclose them on an aggregated portfolio basis.

External Review

BOCGI will engage external reviewer(s) to confirm the alignment of each Green Bond issuance and the Statement with GBP.