交通銀行股份有限公司

Bank of Communications Co., Ltd.

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

(Stock Code: 03328, 4605 (Preference Share))

交通銀行股份有限公司香港分行

Bank of Communications Co., Ltd. Hong Kong Branch

(the "Issuer")

Issue of CNY1,000,000,000 3.15 per cent. Notes due 2024 (the "CNY Notes") and issue of HKD1,200,000,000 0.95 per cent. Notes due 2023 (the "HKD Notes", together with the CNY Notes, the "Notes")

(Stock Code: 86023 for CNY Notes and 40963 for HKD Notes)

under its

U.S.$12,000,000,000 Medium Term Note Programme (the "Programme")

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

Reference is made to the notices of listing of the Notes on Hong Kong Stock Exchange dated 13 December 2021 published by the Issuer.

The offering circular dated 14 December 2020 in relation to the Programme, the supplemental offering circular of the Programme dated 6 December 2021 and the Pricing Supplements dated 6 December 2021 in relation to the Notes are appended to this announcement.

Hong Kong, 14 December 2021

As at the date of this announcement, the directors of the Bank are Mr. Ren Deqi, Mr. Liu Jun, Mr. Li Longcheng, Mr. Wang Linping*, Mr. Chang Baosheng*, Mr. Liao, Yi Chien David*, Mr. Chan Siu Chung*, Mr. Song Hongjun*, Mr. Chen Junkui*, Mr. Liu Haoyang*, Mr. Yeung Chi Wai, Jason#, Mr. Woo Chin Wan, Raymond#, Mr. Cai Haoyi#, Mr. Shi Lei#, Mr. Zhang Xiangdong# and Ms. Li Xiaohui#.*

* *Non-executive directors*

Independent non-executive directors

Appendix 1
Offering Circular dated 14 December 2020

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 THE SECURITIES 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 AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

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

Confirmation of your Representation: In order to be eligible to view this Offering Circular or make an investment decision with respect to the securities, investors must be purchasing the securities outside the United States in an offshore transaction in reliance on Regulation S under the Securities Act. By accepting the e-mail and accessing the attached Offering Circular, you shall be deemed to have represented to Bank of Communications Co., Ltd. Hong Kong Branch (the "Arranger and Dealer") and Bank of Communications Co., Ltd. Hong Kong Branch or any other branch of Bank of Communications Co., Ltd. located outside the PRC that (i) accedes to the Programme (as defined below) in accordance with the relevant terms of the Dealer Agreement (as defined below) and (ii) is specified as an issuer in the applicable Pricing Supplement (each an "Issuer") (1) that you and any customers you represent are and that the electronic mail address that you gave the Issuer and to which this e-mail has been delivered is not located in the United States and (2) that you consent to delivery of the attached Offering Circular and any amendments or supplements thereto by electronic transmission.

You are reminded that this Offering Circular has been delivered to you on the basis that you are a person into whose possession this Offering Circular may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver or disclose the contents of this Offering Circular to any other person. You should not reply by e-mail to this notice, and you may not purchase any securities by doing so. Any reply e-mail communications, including those you generate by using the "Reply" function on your e-mail software, will be ignored or rejected.

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

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

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

交通銀行
BANK OF COMMUNICATIONS

Bank of Communications Co., Ltd. Hong Kong Branch

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

U.S.$12,000,000,000

Medium Term Note Programme

Under the U.S.$12,000,000,000 Medium Term Note Programme described in this Offering Circular (the "Programme"), Bank of Communications Co., Ltd. Hong Kong Branch or any other branch of Bank of Communications Co., Ltd. (the "Bank") located outside the PRC that (i) accedes to the Programme in accordance with the relevant terms of the Dealer Agreement (as defined below) and (ii) is specified as an issuer in the applicable Pricing Supplement (each an "Issuer"), subject to compliance with all relevant laws, regulations and directives, may from time to time issue Notes (the "Notes"). The aggregate nominal amount of Notes outstanding will not at any time exceed U.S.$12,000,000,000 (or the equivalent in other currencies), subject to increases of the programme size made in accordance with the terms of amended and restated dealer agreement dated 8 November 2019 (the "Dealer Agreement").

The Notes may be issued on a continuing basis to one or more of the Dealers appointed under the Programme from time to time by the relevant 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.

Investing in the Notes involves certain risks. See "Risk Factors" beginning on page 16.

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

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

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

Each Series (as defined in "Summary of the Programme") of Notes in bearer form will be represented on issue by a temporary global note in bearer form (each a "temporary Global Note") or a permanent global note in bearer form (each a "permanent Global Note" together with the temporary Global Note, (the "Global Notes")). Notes in registered form will be represented by registered certificates (each a "Certificate"), one Certificate being issued in respect of each Noteholder's entire holding of Registered Notes of one Series or in dematerialised form where no Certificates will be issued but a deed poll will be executed in respect of the relevant Series. The Notes of each Series in certificated registered form will initially be represented by a permanent global certificate (each a "Global Certificate") without interest coupons. The Global Notes and Global Certificates may be deposited on the relevant issue date (a) in the case of a Series intended to be cleared through Euroclear and/or Clearstream, with a common depositary on behalf of Euroclear Bank SA/NV ("Euroclear") and Clearstream Banking S.A. ("Clearstream") or with a sub-custodian for the Central Moneymarkets Unit Service, operated by the Hong Kong Monetary Authority (the "CMU") and (b) in the case of a Series intended to be cleared through a clearing system other than, or in addition to, Euroclear and/or Clearstream or CMU, or delivered outside a clearing system, as agreed between the Issuer and the relevant Dealer.

This Offering Circular is for distribution to Professional Investors only. The Notes have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States, and the Notes may include Bearer Notes that are subject to U.S. tax law requirements. Subject to certain exceptions, the Notes may not be offered, sold, or, in the case of Bearer Notes, delivered within the United States or, in the case of Notes being offered or sold in reliance on Category 2 of Regulation S of the Securities Act, to, or for the account or the benefit of U.S. persons unless an exemption from the registration requirement of the Securities Act is available and in accordance with all applicable securities laws of any state of the United States and any other jurisdiction. Registered Notes are subject to certain restrictions on transfer, see "Subscription and Sale".

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

The Programme is rated "A2" by Moody's Investors Service, Inc. ("Moody's") and "A" by Fitch Ratings Ltd. ("Fitch"). These ratings are only correct as at the date of this Offering Circular. Tranches of Notes (as defined in "Summary of the Programme") to be issued under the Programme may be rated or unrated. Where a Tranche of Notes is to be rated, such rating will not necessarily be the same as the ratings assigned to the Programme. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction, revision or withdrawal at any time by the assigning rating agency.

Arranger and Dealer for the Programme

Bank of Communications Co., Ltd. Hong Kong Branch

Offering Circular dated 14 December 2020

IMPORTANT NOTICE

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

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

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

Singapore SFA Product Classification: In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the "SFA") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "CMP Regulations 2018"), unless otherwise specified before an offer of Notes, the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 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).

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

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

No person has been authorised to give any information or to make any representation other than those contained in this Offering Circular in connection with the issue or sale of the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the relevant Issuer or the Arranger and Dealer (as defined in "Summary of the Programme") or the Agents (as defined in "Terms and Conditions of the Notes"). Neither this Offering Circular nor any other information supplied in connection with the Programme or any Notes should be considered as a recommendation by the relevant Issuer, the Arranger and Dealer or the Agents that any recipient of this Offering Circular or any other information supplied in connection with the Programme or any Notes should purchase any Notes. This Offering Circular does not take into account the objectives, financial situation or needs of any potential investor. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the relevant Issuer. Neither this Offering Circular nor any other information supplied in connection with the Programme or the issue of any Notes constitutes an offer or invitation by or on behalf of any Issuer, the Arranger and Dealer or the Agents to any person to subscribe for or to purchase any Notes.

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

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

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

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

This Offering Circular does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. None of the Issuers, the Arranger and Dealer or the Agents makes any representation to any investor in the Notes regarding the legality of its investment under any applicable law. The distribution of this Offering Circular and the offer or sale of Notes may be restricted by law in certain jurisdictions.

None of the Issuers, the Arranger and Dealer or the Agents represents that this Offering Circular may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assumes any responsibility for facilitating any such distribution or offering. In particular, unless specifically indicated to the contrary in the applicable Pricing Supplement, no action has been taken by the relevant Issuer, the Arranger and Dealer or the Agent which is intended to permit a public offering of any Notes or distribution of this Offering Circular in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Offering Circular nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Offering Circular or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Offering Circular and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Offering Circular and the offer or sale of Notes in the United States, the European Economic Area, the United Kingdom, Hong Kong, Singapore, the PRC, Taiwan and Japan. See "Subscription and Sale".

To the fullest extent permitted by law, none of the Arranger and Dealer or the Agents accept any responsibility for the contents of this Offering Circular or for any other statement, made or purported to be made by an Arranger or a Dealer or any Agent or on its behalf in connection with the relevant Issuer, the Bank, the Group 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. Neither this Offering Circular nor any financial statements of the relevant Issuer or the Group are intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the relevant Issuer, the Arranger and Dealer or the Agents that any recipient of this Offering Circular or any financial statements of the relevant Issuer or the Group should purchase the Notes. Each potential investor of Notes should determine for itself the relevance of the information contained in this Offering Circular and its purchase of Notes should be based upon such investigation as it deems necessary. None of the Arranger and Dealer or the Agents undertakes to review the financial condition or affairs of any of the Issuers or the Group during the life of the arrangements contemplated by this Offering Circular nor to advise any investor or potential investor in the Notes of any information coming to the attention of any of the Arranger and Dealer or the Agents.

From time to time, in the ordinary course of business, certain of the Dealers and their affiliates have provided advisory and investment banking services, and entered into other commercial transactions with the Issuers, the Group and their respective affiliates, including commercial banking services, for which customary compensation has been received. It is expected that the Dealers and their affiliates will continue to provide such services to, and enter into such transactions, with the Issuers, the Group and their respective affiliates in the future.

The Dealers or certain of their respective affiliates may purchase the Notes and be allocated Notes for asset management and/or proprietary purposes and not with a view to distribution.

In making an investment decision, each potential investor must rely on its own examination of the relevant Issuer and the terms of the Notes being offered, including the merits and risks involved. The relevant Issuer does not and the Arranger and Dealer and the Agents do not make any representation regarding the legality of investment under any applicable laws.

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

In connection with any Tranche of Notes, one or more of the Dealers (or persons acting on their behalf) may act as the stabilisation manager(s) (the "Stabilisation Manager(s)"). The identity of the Stabilisation Manager(s) (if any) will be disclosed in the relevant Pricing Supplement. In connection with the issue of any Tranche of Notes, one or more of the Dealers named as Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation Manager) in the applicable Pricing Supplement may, to the extent permitted by applicable laws and directives, over-allot Notes or effect transactions with a view to supporting the 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 regulations.

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

Solely for the sake of convenience, this Offering Circular contains translations of certain Renminbi amounts into US dollar amounts. Unless indicated otherwise, the translation of Renminbi amounts into US dollar amounts has been made at the rate of RMB7.0651 to U.S.$1.00, the noon buying rate as set forth in the H.10 statistical release of the Federal Reserve Bank of New York on 30 June 2020. These translations should not be construed as representations that the Renminbi amounts could actually be converted into any US dollar amounts at the rates indicated or at all.

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

- the Bank" and "the Group" refer to Bank of Communications Co., Ltd. and, in the case of "the Bank" except as the context otherwise requires, the subsidiaries of Bank of Communications Co., Ltd.;

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

- a "business day" is a day that is not Saturday, Sunday or a public holiday in Hong Kong; and the terms "associate", "subsidiary" and "substantial shareholder" shall have the meanings given to such terms in the Listing Rules, unless the context otherwise requires.

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

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

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

Presentation of financial information

This Offering Circular contains the audited consolidated financial statements of the Bank as at and for the year ended 31 December 2017, 2018 and 2019, respectively. The financial statements were audited by PricewaterhouseCoopers and prepared in accordance with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board (the "IASB").

For comparability purposes, unless otherwise specified, the audited consolidated financial information of the Bank as at and for the years ended 31 December 2017 and 2018 has been extracted from the audited consolidated financial statements for the Bank as at and for the year ended 31 December 2018 (the "2018 Financial Statements") and the audited consolidated financial information of the Bank as at and for the year ended 31 December 2019 has been extracted from the audited consolidated financial statements for the Bank as at and for the year ended 31 December 2019 (the "2019 Financial Statements"), respectively, which were both audited by PricewaterhouseCoopers. Due to the changes in the basis of preparation of financial statements, the comparative figures contained in the 2019 Financial Statements have been restated accordingly.

In addition, this Offering Circular contains the unaudited but reviewed interim condensed consolidated financial information of the Bank as at and for the six months ended 30 June 2019 and 2020, extracted from the reviewed consolidated financial statements of the Bank as at and for the six months ended 30 June 2020 (the "2020 Interim Financial Statements") which has been prepared and presented in accordance with the International Accounting Standard 34 "Interim Financial Reporting" (the "IAS 34") as well as with all applicable disclosure provisions of the Listing Rules.

Furthermore, this Offering Circular contains the unaudited condensed consolidated interim financial information of the Bank as at and for the nine months ended 30 September 2019 and 2020, extracted from the third quarterly results announcement of 2020 as published on 30 October 2020 (the "2020 Third Quarter Financial Information") which has been prepared and presented in accordance with the IAS 34 as well as with all applicable disclosure provisions of the Listing Rules.

As the 2020 Interim Financial Statements and the 2020 Third Quarter Financial Information have not been audited by any independent auditors, they should not be relied upon by potential investors to provide the same quality of information associated with information that has been subject to an audit. Potential investors must exercise caution when using such data to evaluate the Bank's financial condition and results of operations.

The unaudited condensed consolidated interim financial information of the Bank as at and for the six months ended 30 June 2020 and the unaudited condensed consolidated interim financial information of the Bank as at and for the nine months ended 30 September 2020 should not be taken as an indication of the expected financial condition and results of operations of the Bank or the Group for the full financial year ending 31 December 2020.

The 2018 Financial Statements, the 2019 Financial Statements, the 2020 Interim Financial Statements and the 2020 Third Quarter Financial Information have been published on the Hong Kong Stock Exchange. Unless otherwise stated, all financial data contained herein which is stated as relating to the Bank are referring to the consolidated data of the Group.

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

Documents Incorporated by Reference

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

The Bank publishes its consolidated quarterly interim reports in respect of the three months ended 31 March and the nine months ended 30 September of each financial year. A copy of the quarterly interim reports can be found on the website of the HKSE. The quarterly interim reports have not been and will not be audited by the Bank's auditors and were and will be prepared under IAS 34. The quarterly interim reports should not be relied upon by investors to provide the same quality of information associated with information that has been subject to an audit. Potential investors should exercise caution when using such data to evaluate the Bank's financial condition and results of operation. The quarterly interim reports should not be taken as an indication of the expected financial condition or results of operations of the Bank for the relevant full financial year.

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

Copies of all such documents which are so deemed to be incorporated in, and to form part of, this Offering Circular will be available free of charge during usual business hours on any weekday (Saturdays and public holidays excepted) from the specified offices of the relevant Issuer and of the Fiscal Agent (as defined below).

Supplemental Offering Circular

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

Forward-looking statements

Certain statements under "Risk Factors", "Business" and elsewhere in this Offering Circular constitute "forward-looking statements". The words including "believe", "expect", "plan", "anticipate", "schedule", "estimate", "may", "will", "would", "could", "aim", "intend", "project", "potential", "future", "seek", "should" and similar words or the negative thereof, or expressions identify forward-looking statements. In addition, all statements other than statements of historical facts included in this Offering Circular, including, but without limitation, those regarding the financial position, business strategy, prospects, capital expenditure and investment plans of the Group and the plans and objectives of the Group's management for its future operations (including development plans and objectives relating to the Group's operations), are forward-looking statements.

Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results or performance of the Group to differ materially from those expressed or implied by such forward-looking statements. Reliance should not be placed on these forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Group's present and future business strategies and the environment in which the Group will operate in the future. The relevant Issuer expressly disclaims any obligation or undertaking to release any updates or revisions to any forward-looking statements contained herein to reflect any change in the relevant Issuer's or the Group's expectations with regard thereto or any change of events, conditions or circumstances, on which any such statements were based. This Offering Circular discloses, under "Risk Factors" and elsewhere, important factors that could cause actual results to differ materially from the relevant Issuer's expectations. All subsequent written and forward-looking statements attributable to the Issuer or persons acting on behalf of the Issuer are expressly qualified in their entirety by such cautionary statements.

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DEFINITIONS AND CONVENTIONS

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

Accountholder	each person who is for the time being shown in the records of the CMU operator as the holder of a particular principal amount of the Notes.
Additional Tier 1 Capital	has the meaning given to Additional Tier 1 Capital (其他一級資本) (or any equivalent or successor term) in the Capital Management Rules.
Bank and the Group	Bank of Communications Co., Ltd. and its subsidiaries.
Bank of Communications (Hong Kong)	Bank of Communications (Hong Kong) Limited.
Basel Committee	the Basel Committee on Banking Supervision.
Basel II	the revised Basel Capital Framework promulgated in June 2004.
Basel III	the newest Basel Capital Accord promulgated in December 2010 and 13 January 2011.
Board	the board of directors.
BoCom Insurance	China BOCOM Insurance Co., Ltd.
BoCom International Holdings	BOCOM International Holdings Company Limited.
BoCom International Trust	Bank of Communications International Trust Co., Ltd.
BoCom Investment	Bank of Communications Financial Asset Investment Co., Ltd.
BoCom Leasing	Bank of Communications Financial Leasing Co., Ltd.
BoCom Fund	Bank of Communications Schroder Fund Management Co., Ltd.
BoCommLife Insurance	BoCommlife Insurance Company, Ltd.
BOCOM Wealth Management	BOCOM Wealth Management Co., Ltd
Capital Adequacy Measures	the Administrative Measures on the Capital Adequacy Ratio of Commercial Banks (商業銀行資本充足率管理辦法), which was promulgated by the CBRC on 23 February 2004, became effective on 1 March 2004 and was repealed on 1 January 2013.
Capital Adequacy Ratio	has the meaning given to it in the Capital Management Rules.

Capital Management Rules	the Measures on Capital Management of Commercial Banks (Trial) (商業銀行資本管理辦法 (試行)) issued by the CBRC on 7 June 2012, which became effective on 1 January 2013 (as amended from time to time).
CBIRC	China Banking and Insurance Regulatory Commission. (中國銀行保險監督管理委員會).
CBRC	China Banking Regulatory Commission (中國銀行業監督管理委員會).
China or PRC	the People's Republic of China, but for the purpose of this Offering Circular only and except where the context requires, references in this Offering Circular to "China" and the "PRC" do not include Hong Kong, Macau and Taiwan.
Clearstream	Clearstream Banking S.A.
CMU	Central Moneymarkets Unit Service.
CNH HIBOR	Offshore Renminbi Hong Kong Interbank Offered Rate, a daily reference rate published by the Hong Kong Association of Banks.
Core Tier 1 Capital	has the meaning given to Core Tier 1 Capital (核心一級資本) (or any equivalent or successor term) in the Capital Management Rules.
Core Tier 1 Capital Adequacy Ratio	as at any date has the meaning given to Core Tier 1 Capital Adequacy Ratio (核心一級資本充足率) (or any equivalent or successor term) in the Capital Management Rules, being the ratio of Core Tier 1 Capital of the Bank as of such date to the Risk Weighted Assets of the Bank as of the same date, expressed as a percentage.
CPPCC	the Chinese People's Political Consultative Conference.
CSRC	China Securities Regulatory Commission (中國證券監督管理委員會).
Dayi Bocom Xingmin Rural Bank	Dayi Bocom Xingmin Rural Bank Co., Ltd.
EURIBOR	Euro Interbank Offered Rate, a daily reference rate published by Thomson Reuters.
Euroclear	Euroclear Bank SA/NV.
FDI	Foreign Direct Investment.
Fiscal Agent	Bank of Communications Co., Ltd. Hong Kong Branch.
Fitch	Fitch Ratings Ltd.
FSMA	the Financial Services and Market Act 2000 of the United Kingdom.

GDP	gross domestic product.
HIBOR	Hong Kong Interbank Offered Rate, a daily reference rate published by the Hong Kong Association of Banks.
Hong Kong or HK	the Hong Kong Special Administrative Region of the People's Republic of China.
HKMA	Hong Kong Monetary Authority.
HKSE or Hong Kong Stock Exchange	The Stock Exchange of Hong Kong Limited.
LIBOR	London Interbank Offered Rate, a daily reference rate published by Thomson Reuters.
Listing Rules	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time).
Macau	the Macau Special Administrative Region of the PRC.
MOF	Ministry of Finance of the PRC (中華人民共和國財政部).
MOFCOM	Ministry of Commerce of the PRC (中華人民共和國商務部).
Moody's	Moody's Investors Service Limited.
NDRC	National Development and Reform Commission (中華人民共和國國家發展和改革委員會).
Notes	Notes issued under the U.S.$12,000,000,000 Medium Note Programme.
Offering Circular	this offering circular.
PBOC	People's Bank of China (中國人民銀行).
PRC	the People's Republic of China, excluding, for purposes of this Offering Circular, Hong Kong, the Macau Special Administrative Region of the People's Republic of China, and the region of Taiwan.
PricewaterhouseCoopers	PricewaterhouseCoopers, Certified Public Accountants and Registered Public Interest Entity Auditor.
QFII(s)	qualified foreign institutional investor(s) licensed by the CSRC to invest in Renminbi-denominated shares listed on China's domestic securities exchanges.
Qingdao Laoshan Bocom Rural Bank	Qingdao Laoshan Bocom Rural Bank Co., Ltd.
Regulation S	Regulation S under the U.S. Securities Act.
S&P	S&P Global Ratings

SAFE	State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局).
SFO	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (as amended from time to time).
State Council	the PRC State Council (中華人民共和國國務院).
United States or U.S.	the United States of America, its territories, its possessions and all areas subject to its jurisdiction.
U.S. Securities Act or Securities Act	the U.S. Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.
WTO	World Trade Organisation.
Xinjiang Shihezi Bocom Rural Bank	Xinjiang Shihezi Bocom Rural Bank Co., Ltd.
Zhejiang Anji Bocom Rural Bank	Zhejiang Anji Bocom Rural Bank Co., Ltd.

SUMMARY OF THE PROGRAMME

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

The Issuer	Bank of Communications Co., Ltd. Hong Kong Branch and, in relation to any issue of Notes under the Programme, Bank of Communications Co., Ltd. Hong Kong Branch or any other branch of the Bank located outside the PRC that (i) accedes to the Programme in accordance with the relevant terms of the Dealer Agreement and (ii) is specified as an issuer in the applicable Pricing Supplement.
Description	Euro Medium Term Note Programme.
Size	Up to U.S.$12,000,000,000 (or the equivalent in other currencies at the date of issue) aggregate nominal amount of Notes outstanding at any one time. Bank of Communications Co., Ltd. Hong Kong Branch may increase the amount of the Programme in accordance with the terms of the Dealer Agreement. The Dealer Agreement provides for the U.S.$ equivalent of any Note denominated in another currency to be determined on or around the date agreement is reached to issue those Notes or, if the agreement date is not a date that commercial banks and foreign exchange markets are open for general business in London, on the preceding day on which commercial banks and foreign exchange markets are open for general business in London.
Risk Factors	There are certain factors that may affect the relevant Issuer's ability to fulfill its obligations under Notes issued under the Programme. These are set out under "Risk Factors" below. In addition, there are certain factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme. These are set out under "Risk Factors" and include the fact that the Notes may not be a suitable investment for all investors, certain risks relating to the structure of particular Series of Notes and certain market risks.
Arranger and Dealer	Bank of Communications Co., Ltd. Hong Kong Branch. Bank of Communications Co., Ltd. Hong Kong Branch may from time to time terminate the appointment of any dealer under the Programme and the Issuer may from time to time appoint additional dealers either in respect of one or more Tranches or in respect of the whole Programme. References in this Offering Circular to "Permanent Dealers" are to the persons listed above as Dealers and to such additional persons that are appointed as dealers in respect of the whole Programme (and whose appointment has not been terminated) and to "Dealers" are to all Permanent Dealers and all persons appointed as a dealer in respect of one or more Tranches.
Fiscal Agent and Paying Agent	Bank of Communications Co., Ltd. Hong Kong Branch.

Transfer Agent	Bank of Communications Co., Ltd. Hong Kong Branch.
Calculation Agent	Bank of Communications Co., Ltd. Hong Kong Branch.
Registrar	Bank of Communications Co., Ltd. Hong Kong Branch.
CMU Lodging and Paying Agent	Bank of Communications Co., Ltd. Hong Kong Branch.
Method of Issue	The Notes may be issued on a syndicated or non-syndicated basis. The Notes may be issued in series (each a "Series") having one or more issue dates (each tranche within such Series a "Tranche") and on terms otherwise identical (or identical other than in respect of the first payment of interest), the Notes of each Series being intended to be interchangeable with all other Notes of that Series. Each Series may be issued in tranches on the same or different issue dates. The specific terms of each Tranche (which will be supplemented, where necessary, with supplemental terms and conditions and, save in respect of the issue date, issue price, first payment of interest and nominal amount of the Tranche, will be identical to the terms of other Tranches of the same Series) will be set out in a pricing supplement (a "Pricing Supplement").
Issue Price	Notes may be issued at their nominal amount or at a discount or premium to their nominal amount. Partly Paid Notes may be issued, the issue price of which will be payable in two or more instalments.
Form of Notes	Notes may be issued in bearer form ("Bearer Notes") or in registered form ("Registered Notes"). Registered Notes will not be exchangeable for Bearer Notes and vice versa. Each Tranche of Bearer Notes will initially be in the form of either a temporary Global Note or a permanent Global Note, in each case as specified in the relevant Pricing Supplement. Each Global Note will be deposited on or around the relevant issue date with a common depositary or sub-custodian for Euroclear, Clearstream and/or as the case may be, the CMU and/or any other relevant clearing system. Each temporary Global Note will be exchangeable for a permanent Global Note or, if so specified in the relevant Pricing Supplement, for Definitive Notes. If the TEFRA D Rules are specified in the relevant Pricing Supplement as applicable, certification as to non-U.S. beneficial ownership will be a condition precedent to any exchange of an interest in a temporary Global Note or receipt of any payment of interest in respect of a temporary Global Note. Each permanent Global Note will be exchangeable for Definitive Notes in accordance with its terms. Definitive Notes will, if interest-bearing, have Coupons attached and, if appropriate, a Talon for further Coupons.

	Registered Notes will either be represented by Certificates, one Certificate being issued in respect of each Noteholder's entire holding of Registered Notes of one Series or in dematerialised form. Certificates representing Registered Notes that are registered in the name of a nominee for one or more clearing systems are referred to as "Global Certificates". Where Notes are issued in dematerialised form, a deed poll will be executed by the Issuer in respect of such Series. Registered Notes sold in an "offshore transaction" within the meaning of Regulation S will initially be represented by a Global Certificate.
Clearing Systems	Clearstream, Euroclear, the CMU and, in relation to any Tranche, such other clearing system as may be agreed between the relevant Issuer, the Fiscal Agent and the relevant Dealers.
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 or deposited with a sub-custodian for the HKMA as operator of the CMU or deposited with a depositary or sub-custodian for any other clearing system or may be delivered outside any clearing system provided that the method of such delivery has been agreed in advance by the relevant Issuer, the Fiscal Agent and the relevant Dealers. Registered Notes that are to be credited to one or more clearing systems on issue will be registered in the name of, or in the name of nominees or a common nominee for, such clearing systems.
Currencies	Subject to compliance with all relevant laws, regulations and directives, Notes may be issued in any currency agreed between the relevant Issuer and the relevant Dealers.
Maturities	Subject to compliance with all relevant laws, regulations and directives, any maturity, including for the avoidance of doubt, undated perpetual Notes with no fixed maturity.
Benchmark Discontinuation	See Condition 5(b)(iii)(C) (*Benchmark Replacement*)
Specified Denomination	Definitive Notes will be in such denominations as may be specified in the relevant Pricing Supplement, save that unless otherwise permitted by then current laws and regulations, Notes (including Notes denominated in sterling) which must be redeemed before the first anniversary of their date of issue and in respect of which the issue proceeds are to be accepted by the relevant Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the Financial Services and Markets Act 2000 will have a minimum denomination of £100,000 (or its equivalent in other currencies).

Fixed Rate Notes	Fixed interest will be payable in arrear on the date or dates in each year specified in the relevant Pricing Supplement.
Floating Rate Notes	Floating Rate Notes will bear interest determined separately for each Series as follows: (i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc., as amended, supplemented or replaced; or (ii) by reference to LIBOR or EURIBOR or HIBOR or CNH HIBOR (or such other benchmark as may be specified in the relevant Pricing Supplement) as adjusted for any applicable margin. Interest periods will be specified in the relevant Pricing Supplement.
Zero Coupon Notes	Zero Coupon Notes may be issued at their nominal amount or at a discount to it and will not bear interest.
Dual Currency Notes	Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be made in such currencies, and based on such rates of exchange as may be specified in the relevant Pricing Supplement.
Index Linked Notes	Payments of principal in respect of Index Linked Redemption Notes or of interest in respect of Index Linked Interest Notes will be calculated by reference to such index and/or formula as may be specified in the relevant Pricing Supplement.
Interest Periods and Interest Rates	The length of the interest periods for the Notes and the applicable interest rate or its method of calculation may differ from time to time or be constant for any Series. Notes may have a maximum interest rate, a minimum interest rate, or both. The use of interest accrual periods permits the Notes to bear interest at different rates in the same interest period. All such information will be set out in the relevant Pricing Supplement.
Redemption and Redemption Amounts	The relevant Pricing Supplement will specify the basis for calculating the redemption amounts payable. Unless permitted by then current laws and regulations, Notes (including Notes denominated in sterling) which must be redeemed before the first anniversary of their date of issue and in respect of which the issue proceeds are to be accepted by the relevant Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the Financial Services and Markets Act 2000 must have a minimum redemption amount of £100,000 (or its equivalent in other currencies).

Redemption by Instalments	The Pricing Supplement issued in respect of each issue of Notes that are redeemable in two or more instalments will set out the dates on which, and the amounts in which, such Notes may be redeemed.
Other Notes	Terms applicable to high interest Notes, low interest Notes, step-up Notes, step-down Notes, reverse dual currency Notes, optional dual currency Notes, partly paid Notes and any other type of Note that the relevant Issuer and any Dealer or Dealers may agree to issue under the Programme will be set out in the relevant Pricing Supplement.
Optional Redemption	The Pricing Supplement issued in respect of each issue of Notes will state whether such Notes may be redeemed prior to their stated maturity at the option of the relevant Issuer (either in whole or in part) and/or the holders, and if so the terms applicable to such redemption.
Status of the Notes	The Notes issued by the relevant Issuer will constitute direct, unconditional, unsubordinated and unsecured obligations of the relevant Issuer and will rank *pari passu* without any preference among themselves and *pari passu* with all other present and future unsecured and unsubordinated obligations of the relevant Issuer other than any such obligations as are preferred by law, all as further described in Condition 4.
Events of Default	See "Terms and Conditions of the Notes — Events of Default".
Cross Default	See the relevant sub-condition under "Terms and Conditions of the Notes — Events of Default".
Ratings	The Programme is rated "A2" by Moody's and "A" by Fitch. Tranches of Notes will be rated or unrated. Where a Tranche of Notes is to be rated, such rating will be specified in the relevant Pricing Supplement. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.
Early Redemption	Except as provided in "Optional Redemption" above, Notes will be redeemable at the option of the Issuer prior to maturity only for tax reasons. See "Terms and Conditions of the Notes — Redemption, Purchase and Options".
Withholding Tax	All payments of principal and interest in respect of the Notes will be made free and clear of withholding taxes of the relevant jurisdiction of Hong Kong, the PRC, or any other jurisdiction to which the Issuer becomes subject to tax in respect of payments made by it of principal and interest on the Notes, subject to customary exceptions, all as described in "Terms and Conditions of the Notes — Taxation".
Governing Law	English law.

Listing	Application has been made to the Hong Kong Stock Exchange for the listing of the Programme during the 12-month period from 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. Unlisted Notes may also be issued. The applicable Pricing Supplement will state whether or not the relevant Notes are to be listed and, if so, on which stock exchange(s). Notes listed on the HKSE will be traded on the HKSE in a board lot size of at least HK$500,000 (or its equivalent in other currencies).
Selling Restrictions	For a description of certain restrictions on offers, sales and deliveries of Notes and on the distribution of offering material in the United States, the European Economic Area, the United Kingdom, Hong Kong, Singapore, the PRC, Taiwan and Japan, see "Subscription and Sale" below.

SUMMARY FINANCIAL INFORMATION

The following tables set forth the summary consolidated financial information of the Bank as at and for the periods indicated.

The summary consolidated financial information as at and for the years ended 31 December 2017, 2018 and 2019 set forth below is derived from the Bank's published audited consolidated financial statements as at and for the years ended 31 December 2018 and 2019, which are prepared and presented in accordance with IFRS. Such summary consolidated financial information should be read in conjunction with such published audited consolidated financial statements and the notes thereto included elsewhere in this Offering Circular. The Bank's published audited consolidated financial statements as at and for the years ended 31 December 2018 and 2019 have been audited by PricewaterhouseCoopers, in accordance with International Standards on Auditing issued by the International Auditing and Assurance Standards Board (the "IAASB").

The summary unaudited interim condensed consolidated financial information as at and for the six months ended 30 June 2019 and 2020 and the unaudited condensed consolidated interim financial information as at and for the nine months ended 30 September 2019 and 2020 set forth below is derived from the Bank's published unaudited interim condensed consolidated financial statements as at and for the six months ended 30 June 2020 and the published unaudited interim condensed consolidated financial information as at and for the nine months ended 30 September 2020 respectively, which are prepared and presented in accordance with IAS 34 as well as with all applicable disclosure provisions of the Listing Rules. The Bank's published unaudited interim condensed consolidated financial statements as at and for the six months ended 30 June 2020 and the unaudited condensed consolidated interim financial information as at and for the nine months ended 30 September 2020 which are included in this Offering Circular have not been audited by PricewaterhouseCoopers. The Bank's published unaudited interim condensed consolidated financial statements as at and for the six months ended 30 June 2020 have been reviewed by PricewaterhouseCoopers in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the IAASB.

The summary unaudited interim condensed consolidated financial information below should be read in conjunction with such published unaudited interim condensed consolidated financial statements and the notes thereto, and such summary 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 must exercise caution when using such data to evaluate the Bank's financial condition and results of operations. Such unaudited interim condensed consolidated financial information as at and for the six months ended 30 June 2020 and the nine months ended 30 September 2020 should not be taken as an indication of the expected financial condition and results of operations of the Bank for the full financial year ending 31 December 2020.

We have adopted IFRS 9 "Financial Instruments" ("IFRS 9"), which took effect on 1 January 2018. The impact of the initial application of this new accounting standard is disclosed in note 2.1 to the 2018 Financial Statements. The classification and measurement and impairment requirements of IFRS 9 are applied retrospectively by adjusting the opening statement of financial position at the date of initial application, with no requirement to restate comparative periods. Therefore, our consolidated financial information as of and for the year ended 31 December 2017 may not be directly comparable to our consolidated financial information after 1 January 2018.

We have adopted IFRS 16 "Leases" ("IFRS 16"), which took effect on 1 January 2019. The impact of the initial application of this new accounting standard is disclosed in note 2.1 to the 2019 Financial Statements. The recognition and measurement requirements of IFRS 16 are applied retrospectively by adjusting the opening statement of financial position at the date of initial application, with no requirement to restate comparative periods. Therefore, our consolidated financial information as of and for the years ended 31 December 2017 and 2018 may not be directly comparable to our consolidated financial information after 1 January 2019.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December			Six months ended 30 June		Nine months ended 30 September	
	2017	2018	2019	2019	2020	2019	2020
	(RMB in million unless otherwise stated) *(audited)*			*(RMB in million unless otherwise stated)* *(unaudited)*		*(RMB in million unless otherwise stated)* *(unaudited)*	
Interest income	314,200	348,864	367,453	181,862	186,229	274,701	278,001
Interest expense	(189,327)	(217,956)	(223,370)	(111,800)	(112,380)	(168,374)	(163,987)
Net interest income	124,873	130,908	144,083	70,062	73,849	106,327	114,014
Fee and commission income	44,060	44,673	47,669	25,070	26,215	37,445	38,022
Fee and commission expense	(3,509)	(3,436)	(4,044)	(1,948)	(1,938)	(2,987)	(3,039)
Net fee and commission income	40,551	41,237	43,625	23,122	24,277	34,458	34,983
Net gains arising from trading activities	2,096	17,099	15,936	8,289	7,353	12,782	8,758
Net gains arising from financial investments	3,084	290	313	328	1,505	992	2,142
Share of profits of associates and joint ventures	132	227	414	292	85	351	143
Insurance business income	12,968	7,481	11,687	8,311	10,936	9,584	12,522
Other operating income	12,816	15,813	16,799	7,910	8,954	12,019	13,073
Credit impairment losses	—	(43,454)	(51,954)	(21,544)	(33,333)	(36,945)	(51,914)
Assets impairment losses	(31,469)	—	—	—	—	—	—
Other assets impairment losses	—	(60)	(270)	(6)	(159)	(6)	(156)
Insurance business expense	(12,211)	(6,722)	(11,432)	(7,878)	(11,022)	(9,367)	(12,901)
Other operating expense	(69,575)	(76,752)	(81,001)	(39,927)	(42,487)	(61,209)	(63,149)
Profit before tax	83,265	86,067	88,200	48,959	39,958	68,986	57,515
Income tax	(12,574)	(11,902)	(10,138)	(5,811)	(2,961)	(8,260)	(4,044)
Net profit for the period	70,691	74,165	78,062	43,148	36,997	60,726	53,471
Other comprehensive income							
Items that may be reclassified subsequently to profit or loss:							
Loans and advances to customers at fair value through other comprehensive income							
Amount recognised directly in equity	N.A.	102	(335)	(901)	249	(431)	147
Amount reclassified to profit or loss	N.A.	—	(378)	—	(198)	(330)	(147)
Debt instruments at fair value through other comprehensive income							
Amount recognised directly in equity	N.A.	2,086	3,715	1,741	(127)	2,263	(2,078)
Amount reclassified to profit or loss	N.A.	(171)	(395)	(181)	(1,062)	(652)	(1,536)
Available-for-sale financial assets							
Changes in fair value recorded in equity	(2,317)	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Changes in fair value reclassified from equity to profit or loss	(2,111)	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Effective portion of gains or losses on hedging instruments in a cash flow hedges							
Changes in fair value recorded in equity	18	110	(156)	110	(659)	30	(462)
Changes in fair value reclassified from equity to profit or loss	103	(93)	147	(171)	4	(81)	(58)
Others	(9)	18	18	16	28	17	7
Translation difference on foreign operations	(1,592)	1,998	1,141	141	1,093	1,554	(1,428)

	Year ended 31 December			Six months ended 30 June		Nine months ended 30 September	
	2017	2018	2019	2019	2020	2019	2020
	(RMB in million unless otherwise stated) *(audited)*			*(RMB in million unless otherwise stated)* *(unaudited)*		*(RMB in million unless otherwise stated)* *(unaudited)*	
Items that will not be reclassified subsequently to profit or loss:							
Changes in fair value of equity investments designated at fair value through other comprehensive income	N.A.	61	(560)	99	(371)	9	(374)
Actuarial gains/(losses) on pension benefits	31	(25)	(20)	3	(34)	(12)	(188)
Change in fair value attributable to change in the credit risk of financial liability designated at fair value through profit or loss	N.A.	(14)	25	74	44	78	33
Others	—	—	—	—	26	—	20
Other comprehensive income, net of tax	(5,877)	4,072	3,202	931	(1,007)	2,445	(6,064)
Total Comprehensive income for the period	64,814	78,237	81,264	44,079	35,990	63,171	47,407
Net profit attributable to:							
Shareholders of the Bank	70,223	73,630	77,281	42,749	36,505	60,147	52,712
Non-controlling interests	468	535	781	399	492	579	759
Total comprehensive income attributable to:							
Shareholders of the Bank	64,585	77,461	80,414	43,651	35,403	62,504	46,778
Non-controlling interests	229	776	850	428	587	667	629
Basic and diluted earnings per share for profit attributable to the shareholders of the Bank (in RMB yuan/U.S.$ per share (Restated)	0.91	0.96	1.00	0.54	0.46	0.77	0.65

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31 December			As at 30 June	As at 30 September
	2017	2018	2019	2020	2020
		(RMB in million) *(audited)*		*(RMB in million)* *(unaudited)*	*(RMB in million)* *(unaudited)*
Assets					
Cash and balances with central banks	938,571	840,171	760,185	801,146	796,805
Due from and placements with banks and other financial institutions	782,468	848,067	648,488	693,101	701,096
Derivative financial assets	34,007	30,730	20,937	28,130	39,745
Financial investment at fair value through profit or loss	227,030	376,386	406,498	519,544	500,261
Financial investments at amortised cost	—	2,000,505	1,929,689	1,940,765	1,977,302
Financial investments at fair value through other comprehensive income.	—	445,018	669,656	786,837	803,042
Loans and advances to customers	4,473,255	4,742,372	5,183,653	5,602,356	5,687,511
Financial investment — loans and receivables	387,733	—	—	—	—
Financial investment — available-for-sale	402,138	—	—	—	—
Financial investment — held-to-maturity	1,511,375	—	—	—	—
Investment in an associate and joint ventures.	3,357	3,653	4,600	4,745	4,718
Property and equipment	132,492	153,286	171,179	174,746	174,097
Deferred income tax assets	16,456	21,975	24,065	26,045	26,514
Other assets	129,372	69,008	86,650	92,517	84,480
Total assets	9,038,254	9,531,171	9,905,600	10,669,932	10,795,571
Liabilities					
Due to and placements from banks and other financial institutions	2,106,192	2,162,293	1,904,082	1,916,759	1,787,831
Financial liabilities at fair value through profit or loss	26,964	23,109	26,980	26,916	23,483
Derivative financial liabilities	33,344	28,105	26,424	41,303	45,615
Due to customers	5,545,366	5,793,324	6,072,908	6,560,867	6,615,067
Certificates of deposits issued	150,482	366,753	498,991	621,792	765,313
Current income tax liabilities	7,943	2,279	7,086	4,830	1,685
Deferred income tax liabilities	520	598	918	890	952
Debt securities issued	287,662	317,688	403,918	459,405	518,409
Other liabilities	203,510	131,714	163,381	223,038	200,539
Total liabilities	8,361,983	8,825,863	9,104,688	9,855,800	9,958,894
Equity					
Share capital	74,263	74,263	74,263	74,263	74,263
Other equity instruments	59,876	59,876	99,870	99,870	114,944
Capital surplus	113,663	113,663	113,663	113,663	111,462
Other reserves	298,827	321,442	328,310	339,109	334,357
Retained earnings	124,514	129,161	177,141	175,638	190,085
Equity attributable to shareholders of the Bank	671,143	698,405	793,247	802,543	825,111
Non-controlling interests	5,128	6,903	7,665	11,589	11,566
Total equity	676,271	705,308	800,912	814,132	836,677
Total equity and liabilities	9,038,254	9,531,171	9,905,600	10,669,932	10,795,571

FINANCIAL INDICATORS

	As at/for the year ended 31 December			As at/for the six months ended 30 June		As at/for the nine months ended 30 September	
	2017	2018	2019	2019	2020	2019	2020
				(%)			
Return on average assets(1)	0.81	0.80	0.80	0.89	0.72	0.83	0.69
Return on average shareholder's equity(2)	11.44	11.36	11.20	12.79	10.07	11.80	9.39
Cost-to-income ratio(3)	31.85	31.50	30.11	29.05	28.91	30.15	29.35

	As at 31 December			As at 30 June	As at 30 September
	2017	2018	2019	2020	2020
			(%)		
Impaired loans ratio(4)*	1.50	1.49	1.47	1.68	1.67
Provision coverage of impaired loans(5)*	154.73	173.13	171.77	148.73	150.81
Tier 1 capital adequacy ratio(6)*	11.86	12.21	12.85	12.18	12.13
Core Tier 1 capital adequacy ratio(6)*	10.79	11.16	11.22	10.63	10.41
Capital adequacy ratio(6)*	14.00	14.37	14.83	14.57	14.47

Notes:

(1) Calculated by dividing annualised net profit of the reporting period by the average of total assets at the beginning and the end of the reporting period.

(2) Calculated by dividing annualised net profit (excluding non-controlling interests) at the beginning and the end of the reporting period.

(3) Refers to operating expenses against the total of various net income. Calculated in accordance with China Accounting Standards for business and management fees divided by operating income net of other business costs, consistent with the financial report data compiled in accordance with China Accounting Standards.

(4) Calculated by dividing the outstanding balance of impaired loans by the outstanding balance of loans and advances to customers before impairment allowances at the end of the reporting period.

(5) Calculated by dividing the outstanding balance of impairment allowances by the outstanding balance of impaired loans at the end of the reporting period.

(6) Calculated pursuant to the Administrative *Measures for the Capital Management of Commercial Banks (Trial Implementation)* issued by the China Banking Regulatory Commission. Upon the approval from regulatory authorities, the Group has used the Advanced Measurement Approach of Capital Management for the measurement of capital adequacy ratio since April 2014.

RISK FACTORS

This Offering Circular contains forward-looking statements relating to events that involve risks and uncertainties. Investors should carefully consider the risk factors set forth below, as well as the other information contained elsewhere in this Offering Circular. The risks described below are not the only ones that may affect the Bank or the Notes. Additional risks and uncertainties of which the Bank is not aware or that the Bank currently believes are immaterial may also adversely affect the Bank's financial condition or results of operations. If any of the possible events described below occur, the Bank's financial condition or results of operations could be materially and adversely affected. In such case, the Bank may not be able to satisfy its obligations under the Notes, and investors could lose all or part of their investment.

Risks Relating to the Bank's Business

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

The Group has been, and in the future will continue to be, materially affected by geo-political, economic and market conditions, including factors such as the liquidity of the global financial markets, any Sino-U.S. trade friction, the level and volatility of debt and equity prices, interest rates, currency and commodities prices, investor sentiment, inflation, and the availability and cost of capital and credit. A number of governments revised GDP growth forecasts downward for 2020 in response to the economic slowdown caused by the spread of COVID-19, and it is possible that the outbreak of COVID-19 may cause a prolonged global economic crisis or recession.

Since 2017, there has been a more inward-looking policy agenda in the U.S. aimed at encouraging U.S. companies to bring back jobs, renegotiating trade pacts and stimulating the domestic economy via infrastructure spending and tax reforms. In Europe, the exit of the United Kingdom from the European Union, and any prolonged period of uncertainty which results, could have a significant negative impact on international markets. These could include further falls in stock exchange indices, a fall in the value of the Pound, an increase in exchange rates between the Pound and the Euro and/or greater volatility of markets in general due to the increased uncertainty.

The implications of these developments for the world and the Group are significant. First, a rise in global trade protectionism may negatively impact the trade-dependent economies in Asia. Second, the interplay of U.S. fiscal and monetary policies, and ongoing quantitative easing programmes in Japan and Europe may lead to more volatile global capital flows, which could in turn impact global growth. Third, financial market volatility and increased uncertainty may have a broader global economic impact that may in turn have a material adverse effect on the Group's business, financial condition and results of operations.

Inflationary pressures have also started to increase as the rebound in global commodity prices and weak domestic currencies have led businesses to pass on their increased input costs to consumers through higher selling prices. This adds to the uncertain global economic outlook.

To the extent uncertainty regarding the economic outlook negatively impacts consumer confidence and consumer credit factors globally, the Group's business, financial condition and results of operations could be significantly and adversely affected.

Investors should be aware that there are recent historical financial crises and boom-bust cycles in multiple markets in both emerging and developed economies which leads to risks for all financial institutions, including the Group. In addition, the Group remains subject to the risks posed by the indirect economic effect of the global credit crisis, some of which cannot be anticipated and the vast majority of which are not under its control. The Group also remains subject to counterparty risk arising from financial institutions that can fail or are otherwise unable to meet their obligations under their contractual commitment to the Group. If there is another global or regional financial crisis or a downturn in the economic condition of the Group's primary markets, this would likely have a material adverse effect on the Group's business, financial condition and results of operations.

If the Bank is unable to effectively maintain the quality of its loan portfolio or to manage its off balance sheet statement exposures, its financial condition and results of operations will be materially and adversely affected.

Results of the Bank's operations may be negatively impacted by its impaired loans. Under IFRS, the accounting standards that are applicable to the Bank, loans are impaired if there is objective evidence that the Bank will not be able to collect all amounts due according to the original contractual terms of loans. In this regard, the Bank 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 in recent years, despite the ongoing weak macroeconomic environment. As at 31 December 2017, 2018 and 2019 and 30 June 2020, the Bank's individually identified impaired loans were RMB68,506 million, RMB72,512 million, RMB78,043 million and RMB96,292 million, respectively, and its impaired loan ratios were 1.50 per cent., 1.49 per cent., 1.47 per cent. and 1.68 per cent., respectively. However, there can be no assurance that the Bank's credit risk management policies, procedures and systems are free from any deficiency. The occurrence of any deficiencies in the Bank's credit risk management policies, procedures and systems may result in an increase in the level of its impaired loans and adversely affect the quality of its loan portfolio. As a result, there can be no assurance you that the Bank will be able to continue to effectively control the level of impaired loans in its loan portfolio. In particular, the amount of the Bank's reported impaired loans and the ratio of its impaired loans to its loans and advances to customers may increase in the future as a result of deterioration in the quality of its loan portfolio. Such deterioration may occur for a variety of reasons, including factors which are beyond the Bank's control, such as a recent slowdown in economic growth and other adverse macroeconomic trends in China, the significant decline in market liquidity of China's interbank market or a deterioration in the financial condition or results of operations of the Bank's borrowers, which could impair the ability of the Bank's borrowers to service their debt. These include the Bank's corporate and individual loan borrowers, as well as the domestic and overseas commercial banks and non-bank financial institutions with whom the Bank engages in interbank lending activities. If such a deterioration occurs, it could materially and adversely affect the Bank's financial condition and results of operations.

In addition, the Bank has issued credit related commitments, guarantees and letters of credit. The primary purpose of these instruments is to ensure that funds are available to customers as required. These instruments represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties. As a result, these instruments carry similar credit risk as loans and in the event of default by the relevant customers, the Bank's financial condition and results of operations will be materially and adversely affected.

The Bank has a concentration of loans to certain industries and borrowers, and any significant or extended downturn in any of these industries or deterioration in the financial condition of the Bank's major borrowers may adversely affect its financial condition and results of operations.

As at 30 June 2020, approximately 12.12 per cent., 3.89 per cent., 11.82 per cent., 9.41 per cent., 5.64 per cent. and 5.60 per cent. of the Bank's corporate loans were concentrated in the manufacturing sector, the wholesale and retail trade sector, the transportation, storage and postal services sector, the leasing and commercial services sector, the water conservancy, environmental and other public utilities sector and the real estate sector, respectively. Although the Bank follows credit risk management policies with respect to extensions of credit to different industry sectors, including credit extension guidelines for different industry sectors, closely monitors its credit risks in different industries and has recently enhanced its guidelines in extending credit, any significant or extended downturn in any of these sectors may reduce the borrowing activities in these sectors, increase the level of the Bank's impaired loans and related provision for impaired loans, reduce the Bank's net profit and adversely affect its financial condition and results of operations.

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

Governmental financing platforms primarily comprise state-owned or state-run investment or financing institutions whose financing activities are primarily applied to infrastructure construction or governmental investment projects of a quasi-social welfare nature and whose financing activities are fully or partially indemnified or guaranteed by local financial authorities. In recent years, the Bank made continuous improvement in the monitoring and management of its loans, by ways of raising standards and introducing stricter requirements for guarantees. Similar measures in disbursement control and with respect to new projects were implemented on loans made to local government financing platforms. The default of any portion of such loans for any reason, including macroeconomic volatility or policy changes, may adversely affect the quality of the Bank's loans to these entities.

As at 30 June 2020, 20.89 per cent. of the Bank's loans were mortgage loans and 5.60 per cent. of its loans were lent to real estate development companies, which together accounted for 26.49 per cent. of the Bank's total outstanding loans before impairment allowance. The PRC government has in recent years, from time to time, imposed macroeconomic control measures that are aimed at preventing the real estate market and certain other industries from over-heating. Such measures may adversely affect the growth and quality of the Bank's loans related to real estate and such other industries. In accordance with the PRC government's macroeconomic policy and the guidance and compliance requirements of the CBIRC, the Bank aims to maintain a cautious approach to real estate development loans, and has further adopted industry-specific risk management procedures with respect to the real estate sector. The Bank has also adopted a rigorous mortgage evaluation system to ensure the quality of its mortgage customers. In addition, the Bank regularly subjects its assets to multi-factor stress tests, including movements in housing prices, which the Bank's loans have been able to withstand without significant deterioration.

Under prevailing PRC banking regulations, the total outstanding credit exposure to a single group customer may not exceed 15 per cent. of the net capital base of a bank and the total outstanding loans to the same borrower shall not exceed 10 per cent. of the net capital base of a bank. The Bank is currently in compliance with these regulatory requirements. As at 30 June 2020, the largest single borrower of the Bank accounted for 3.98 per cent. of the Bank's net capital, and the total loans of top 10 customers accounted for 17.55 per cent. of the Bank's net capital, which were in compliance with the regulatory requirements. Changes in their creditworthiness and financial condition may also adversely affect the Bank's asset quality, financial condition and results of operations.

If any of the sectors in which the Bank's loans are highly concentrated significantly deteriorates, the Bank's asset quality, financial condition and results of operations may be materially and adversely affected. Moreover, any inaccurate assessment of the credit risks regarding the borrowers in any of these sectors may adversely affect the Bank's asset quality, financial condition and results of operations.

The Bank is subject to risks associated with real estate related loans.

The Bank's loans and advances to the real estate sector primarily comprise loans issued to real estate companies and individual housing loans. The Bank's loans issued to real estate companies include, among others, loans for real estate development, land reservation loans and asset-backed loans.

With respect to its real estate loans, the Bank follows strictly its credit risk management procedures, including ongoing credit monitoring of borrowers' financial information, and strict enforcement of repayment schedules. In addition, the Bank has established a regional risk alert system and loan policy adjustment mechanism applicable to the real estate sector. The Bank 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. However, the real estate market may be affected by factors beyond the Bank's control, including cyclical economic volatility and downturns. In addition, the PRC government has in recent years, from time to time, 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 the Bank's loans to the real estate industry and its financial condition and results of operations.

Deterioration in the debt repayment abilities of local government financing vehicles to which the Bank extends loans may adversely affect its asset quality, financial condition and results of operations.

The Bank's loans to local government financing platforms are mainly made to the investment and financing platforms of various development zones, state-owned asset management companies, land reserve companies and urban construction investment companies, covering a number of industries including water, environment and public utility management, transportation, storage, postal services and leasing and commercial services.

Recently, with the aim of reinforcing the risk management of loans to local government financing platforms, the PRC State Council, the CBIRC and the PBOC, along with several other PRC regulatory authorities promulgated a series of notices, guidelines and other regulatory documents to direct PRC banks and other financial institutions to optimise and strengthen their risk management measures regarding their loans to local government financing platforms. The Bank has consistently focused on the risks associated with loans to the local government financing platforms through a series of measures such as imposing stringent regional controls on disbursing loans to local government financing platforms, establishing a list of approved cities and lending limits and establishing credit and credit product related policies. Through such measures, the risks associated with loans to local government financing platforms, the aggregate volume of loans and their investment direction are subject to control with the goal of ensuring that the Bank's loans are primarily disbursed to key construction and development areas of the state and projects of high quality. While the Bank has taken various measures to reduce the risks of default, unfavourable developments in macroeconomic conditions, adverse changes to state policies, adverse changes to the financial condition of local governments or other factors may adversely affect the debt repayments of these financing platforms, which may in turn materially and adversely affect the Bank's asset quality, financial condition and results of operations.

The Bank's outstanding loans are heavily concentrated in certain regions, and any significant downturn in any of these regions may adversely affect the Bank's financial condition and results of operations.

As at 30 June 2020, approximately 35.45 per cent., 15.74 per cent. and 9.60 per cent. of the Bank's loans and advances were concentrated in the Yangtze River Delta, the Bohai Rim Economic Zone and the Pearl River Delta, respectively. In addition, a substantial portion of the Bank's corporate customers and the majority of its branches, sub-branches and self-service centres are located in the Yangtze River Delta, the Bohai Rim Economic Zone and the Pearl River Delta. The Bank currently expects that the future growth of its corporate and personal finance businesses, especially its corporate and individual loan businesses, will continue to be concentrated in these areas. Any significant economic downturn in any of these regions may adversely affect the Bank's financial condition and results of operations. Moreover, any inaccurate assessment of the credit risks regarding the borrowers in any of these regions may adversely affect the Bank's asset quality, financial condition and results of operations.

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

A substantial portion of the Bank's loans is secured by collateral or pledge or guarantees. As at 30 June 2020, 34.32 per cent., 13.98 per cent. and 19.33 per cent., respectively, of its loans were secured by collateral, pledge and guarantees. The loans secured by collateral and pledge are collectively referred to as the loans secured by security and, as at 30 June 2020, 48.30 per cent. of the Bank's loans were secured by security. The Bank's loan security primarily includes real estate and other assets that are located in the PRC, the value of which may significantly fluctuate or decline due to factors beyond the Bank's control, including macroeconomic factors affecting the PRC economy. An economic slowdown in the PRC may lead to a downturn in the PRC real estate markets, which may in turn result in declines in the value of the security securing many of the Bank's loans to levels below the outstanding principal balance of such loans. Any decline in the value of the security securing the Bank's loans may result in a reduction in the amount the Bank can recover from security realisation and an increase in its impairment losses.

The Bank conducts internal re-evaluations of security regularly, and it hires independent appraisers to re-evaluate certain security from time to time. However, the Bank may not have current information on the value of such security, which may adversely affect the accurate assessment of its loans secured by such security. Losses might also result from the Bank's failure to conduct property preservation in a timely or proper manner while the borrowers' financial and credit conditions deteriorate. In addition, in certain circumstances, the Bank's rights to the security securing its loans may have lower priority than certain other rights.

In China, the procedures for liquidating or otherwise realising the value of security in the form of tangible assets may be protracted and it may be difficult to enforce claims in respect of such security. As a result, it may be difficult and time-consuming for the Bank to take control of and liquidate the security securing the impaired loans.

With respect to guarantees of the Bank's loans provided by third parties, the Bank is subject to the risk that the financial condition of the guarantors of these loans may deteriorate significantly, or that a court or other judicial or government authorities may declare such guarantees to be invalid. The Bank is therefore exposed to the risk that it may not be able to recover all or any part of the amount of these guarantees in respect of its loans.

As a result, any significant decline in the value of the security or deterioration of the financial condition of the guarantors or any failure by the Bank to enforce its rights as a secured creditor may adversely affect the Bank's financial condition and results of operations.

The high proportion of the Bank's loans due within one year may adversely affect the reliability and stability of the Bank's interest income, or result in a higher default rate on its loans.

Interest income from loans represents a substantial portion of the Bank's total interest income. A substantial portion of the Bank's loans consists of loans that are due within one year. As at 30 June 2020, loans to customers that are due within one year represented approximately 41.36 per cent. of the balance of the Bank's loans and advances to customers after allowance for impairment. From the Bank's historical experience, a substantial portion of these loans is rolled over upon maturity and, as a result, these loans have been a stable source of interest income. There can be no assurance, however, that this will continue to be the case, particularly if competition increases or alternative sources of funding at lower interest rates become available to the Bank's customers. In addition, the concentration of short-term loans means that the repayment of such loans may be more vulnerable to, and could result in, a rise in default rates in case of any downturns in the PRC economy or in the specific sectors of the PRC economy to which the Bank primarily lends. Either of these factors could have an adverse effect on the Bank's financial condition and results of operations.

The Bank may not be able to manage the various risks it will face as the Bank expands the range of its products and services, which also include non-commercial banking financial products and services.

Part of the Bank's strategy is to expand the range of products and services that the Bank offers to its customers in the PRC and overseas, including non-commercial banking financial products and services. For example, the Bank has recently introduced and sought to strengthen new products and services in the areas of wealth management (such as its "Win to Fortune" accounts), mobile banking (such as its e-Mobile BOCOM product), insurance, finance leasing, asset management, trust services, offshore financial services, custodian and investment banking services. The Bank operates its non-commercial banking financial products and services through separate subsidiaries. In 2000, the Bank established BoCom Insurance (formerly China Communications Insurance Co., Ltd. prior to the change in its name in 2007) to provide different types of general insurance products and services to its customers. BoCom Fund, which was established in 2005 as a joint venture with Schroder Investment Management Limited and the China International Marine Containers (Group) Co., Ltd., offers wealth management products and services. In 2007, the Bank established BoCom International Holdings through the restructuring and integration of its wholly owned subsidiary BOCOM International Securities Limited (registered and established in June 1998) to provide investment banking, securities trading and asset management services. In January 2010, the Bank acquired a controlling interest in China Life CMG Life Assurance Co., Ltd. from China Life Insurance Company Limited. The company, which the Bank renamed BoComm Life Insurance Company Limited following the acquisition, offers life insurance products and services. With the acquisition, the Bank became the first of the domestic banks in the PRC to acquire a controlling interest in a domestic insurance company and receive an insurance license. In 2019, the Bank established BOCOM Wealth Management Co., Ltd. to continuously enrich and optimise the wealth management product service system. In August 2020, the Bank incorporated BOCOM Financial Technology Company Limited (交銀金融科技有限公司) ("BOCOM Financial Technology") to explore innovations of FinTech talent management technology introduction, and research and development mechanism of application system and promote the digital and intelligent transformation of the Bank. The Bank has also entered into a cooperation arrangement with HSBC with respect to credit card and other financial products and services. As the Bank expands the range of its products and services, it will be exposed to new and potentially increasingly complex risks, including, but not limited to, the following:

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

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

- the Bank may need to hire additional qualified personnel who may not be available on commercially viable terms;

- the Bank may not have sufficient financial, operational, management and other human resources to support the expanded range of its products and services;

- the Bank may have disagreements with the joint venture partners and other entities with which the Bank offers certain of its new financial products and services, and they may be unable or unwilling to continue their arrangements with the Bank due to financial difficulties or other reasons;

- the Bank may be faced with risks in integrating the acquired businesses with which the Bank offers certain of these new products and services;

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

- a slowdown in China's economic development could adversely affect the ability of personal borrowers and credit card holders to make payments, thereby increasing the probability of defaults and reducing the demand for personal loans and credit cards; and

- the Bank may not be successful in enhancing its risk management and internal control capabilities and information technology systems to support a broader range of products and services.

Any or all of these types of risks could have an adverse effect on the Bank's financial condition and results of operations.

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

The Bank is required to comply with applicable anti-money-laundering, anti-terrorism laws and other regulations in the PRC, Hong Kong and other jurisdictions where the Bank has operations. These laws and regulations require the Bank, among other things, to adopt and enforce "know your customer" policies and procedures and to report suspicious and large transactions to the applicable regulatory authorities in different jurisdictions. While the Bank 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 Bank may be used by other parties to engage in money laundering or other illegal or improper activities. To the extent the Bank may fail to fully comply with applicable laws and regulations, the relevant government agencies to whom the Bank reports have the power and authority to impose fines and other penalties on the Bank, which could harm its business and reputation, which in turn may negatively affect the Bank's ability to service the Notes and to satisfy its other obligations under the Notes.

Any failure or ineffectiveness in implementing its centralised management may adversely affect the Bank's business operations, financial condition and reputation.

The Bank's efforts to centralise its management and initiatives it has undertaken and continues to undertake to improve management of its branches may not be sufficient to prevent all irregular transactions or incidents. Furthermore, in the event that any irregular transactions or incidents occur, the Bank may not be able to timely detect and take appropriate measures to resolve them. If incidents or other irregular transactions do occur, relevant PRC regulatory authorities may take disciplinary actions or impose fines or other types of penalties against the Bank, and the Bank's business and reputation as a result may be materially and adversely affected.

The Bank is subject to a number of risks inherent in the Bank's business, including credit risk, market risk, liquidity risk and operational risk, and there can be no assurance that the Bank's risk management and internal control policies and procedures can protect the Bank against all such risks.

In its operations as a commercial bank, the Bank is subject to a number of risks inherent in the Bank's business, including credit risk, liquidity risk and operational risk. One of the principal risks inherent in the Bank's business is credit risk. The Bank may not be able to effectively implement its credit risk management system or continue to improve it so that it can function effectively. The Bank's credit rating system process involves detailed analysis of the borrower's credit risk, taking into account both quantitative and qualitative factors. The qualitative factors are, by their nature, subject to the individual judgment of the Bank's employees. In exercising their judgment, if the Bank's employees are not able to assign an accurate credit rating to a borrower, the Bank may be exposed to risks associated with the inaccurate assessment. In addition, the Bank may not be able to timely detect potential risks associated with particular industries or types of customers, such as affiliated entities or groups of customers, or, due to limited resources or tools available to the Bank, its employees may not be able to effectively implement them. With respect to market risk, the Bank's methods to manage market risks, including observing historical market behaviour, may not be able to timely or precisely predict future market risk exposures, which could be significantly greater than those indicated by historical measures. Liquidity risk is inherent in banking operations and can be heightened by a number of factors, including changes in credit ratings or market-wide phenomena such as financial market instability. While it is the Bank's policy to manage its liquidity prudently, exceptional market events may materially and adversely affect its financial condition and results of operations. The Bank may also be exposed to the risk of unexpected increases in the cost of funding its asset portfolio at appropriate maturities and the risk of being unable to liquidate a position in a timely manner and/or at a reasonable price. With respect to operational risk, the Bank's internal control system is the essential means to maintain the integrity of its business, financial condition and results of operation. Although the Bank has significantly enhanced its risk management and internal control policies and procedures in recent years in an effort to improve its risk management capabilities and enhances its internal control, including its internal audit function, there can be no assurance that the Bank's staff will be able to consistently follow these policies and guidelines at all times.

There can be no assurance that the Bank's risk management and internal control policies and procedures will adequately control, or protect the Bank against, all credit, market, liquidity and other risks. Further, the Bank's risk management capabilities are limited by the information, tools or technologies available to it. Information, including information provided by third parties, may not be accurate, complete, up-to-date or properly evaluated in all cases. There can be no assurance that the Bank will be able to continue to upgrade its risk management tools and information technology systems, or operate such tools and systems and monitor and analyse the effectiveness of such tools and systems. To the extent that the Bank cannot effectively enhance its risk management and internal controls or its risk management and internal control system are not effectively implemented or consistently applied, the Bank's business operations, financial results and reputation may be materially and adversely affected.

The Bank's business, reputation and prospects may be adversely affected if the Bank is not able to timely detect and prevent fraud or other misconduct committed by its employees, customers or other third parties.

The Bank is subject to fraud and other misconduct committed by its employees, customers or other third parties, which could adversely affect the Bank's business, reputation or prospects. Such misconduct could take a variety of forms including, among other things:

- hiding unauthorised or illegal activities that may result in unknown and unmanaged risks or losses;

- engaging in unauthorised transactions to the Bank's detriment, breaching applicable laws or its internal control procedures or violating financial accounting rules;
- improper extensions of credit;
- misapplying or failing to apply the loan classification standards thereby resulting in misclassifications within the Bank's loan portfolio;
- engaging in misrepresentation or fraudulent, deceptive or otherwise improper activities when marketing or selling products to the Bank's customers;
- improperly using or disclosing confidential information;
- falsifying or concealing information, including illegal or unlawful activities or credit information, during the credit application or loan classification process;
- binding the Bank to transactions that exceed authorised limits; and
- accepting bribes, soliciting illegal commission payments and embezzling the Bank's money.

The Bank has in the past experienced incidents of fraud and other misconduct committed by employees, customers and other third parties. Although these incidents have not materially adversely affected the Bank's financial condition or results of operations, the Bank has enhanced its risk management and internal controls to avoid future occurrences of similar incidents. Specifically, the Bank has strengthened its auditing efforts over key business processes and key personnel as well as strengthened its efforts in identifying illegal dealings between its employees and customers. While the Bank seeks to continue improving its risk management and internal control systems, including internal audit, management information systems, reporting procedures and staff awareness, to help prevent and detect such fraud or misconduct, the Bank cannot predict whether or when such fraud or misconduct will happen and in what form, and there can be no assurance that the Bank will be able to timely detect or prevent such fraud or misconduct. As a result, the Bank's business, reputation and prospects may be adversely affected if the Bank is not able to timely detect and prevent fraud or other misconduct committed by its employees, customers or other third parties.

The effect of inflation on the Bank's banking business.

China has continued to experience high inflationary pressure in recent years due to, among other things, improvement of liquidity in the global financial system, rises in asset prices and cost. The Bank believes that under the PRC government's macroeconomic control, inflation is for the moment kept under control. Meanwhile, the spread between bank deposit and bank loans is effectively under government control and protection, and so the Bank believes that so long as such control continues, the Bank's business will be sheltered from inflation to some extent. Nonetheless, if the inflationary pressure intensifies and if the Bank's interest margin narrows as a result of government action, the Bank's business and operation results may be materially and adversely affected.

The growth rate of the Bank's loan portfolio may slow down, and the Bank may not be successful in implementing its strategies to grow its business.

The Bank's total loans and advances to customers have grown significantly in recent years, increasing from RMB4,579,256 million as at 31 December 2017 to RMB4,854,228 million as at 31 December 2018, representing an increase of 6.0 per cent, and increased further to RMB5,304,275 million as at 31 December 2019, representing an increase of 9.27 per cent. As at 30 June 2020, the Bank's total loans and advances to customers was RMB5,729,513 million, an increase of 8.02 per cent. as compared to RMB5,304,275 million as at 31 December 2019. The growth of the Bank's loan portfolio may be affected by various factors, such as China's macroeconomic policies and capital constraints. In the future, the growth rate of the Bank's loan portfolio may slow down, or the Bank's loan portfolio may not grow or may even decline. In addition, due to the constraints from the amount of its regulatory capital, the Bank may adopt strategies to reduce its reliance on its loan portfolio or expand its activities in other lower risk businesses that have relatively lower capital requirements. Any of the foregoing factors could impact the growth of the Bank's loan portfolio and thereby adversely affect the Bank's business and future prospects.

In addition, the Bank has implemented a variety of strategies to grow its business, including continuing to expand its domestic and overseas branch network and introducing new products and services, such as mobile banking services, additional fee based services, such as wealth management services, additional credit card products and services and insurance products and services. The Bank may not be successful in implementing its strategies to grow its business, and the Bank's efforts to provide new products and services may strain its resources and divert management attention from its core lending business.

The Bank may need additional capital in the future, and it may not be able to obtain such capital on acceptable terms, or at all, which may result in a lower capital adequacy ratio.

The Basel Committee on Banking Supervision formally promulgated Basel III in December 2010. The CBRC promulgated the CBIRC Capital Regulations on 7 June 2012 based on the reform of the banking industry and the existing regulatory framework of the PRC, taking into account the effect of and requirements set out in Basel II and Basel III. The CBIRC Capital Regulations came into effect as of 1 January 2013; and on the same date the Measures on the Administration of the Capital Adequacy Ratio of Commercial Banks, which was promulgated by the CBRC on 23 February 2004 and amended on 3 July 2007, was revoked. The CBIRC Capital Regulations establish a unified regulatory system in respect of the capital adequacy ratio, clarify the definition of capital, expand the range of capital risk coverage, raise the bottom line for the capital adequacy ratio and set a six-year transition period (from 2013 to 2018) for banks to comply with capital adequacy ratio requirements. On 30 November 2012, the CBRC issued the Notice on Matters in relation to the Implementation of Transition Period Arrangements in the (Trial) Measures on the Administration of the Capital of Commercial Banks, which provides the regulatory standards and implementation course for the transition period. As a result, the Bank is required to maintain a minimum core tier one capital adequacy of 5 per cent., a minimum tier one capital adequacy of 6 per cent. and a minimum capital adequacy of 8 per cent. The capital conservation buffer requirement for the Bank is 2.5 per cent., which should be satisfied through core tier one capital. In addition, the Bank is a domestic systemically important bank and is required to maintain a further 1 per cent. capital surcharge above prevailing core tier 1 capital requirements. The relevant regulatory authorities are also able to impose countercyclical capital buffer requirements on an individual bank from time to time. As at 30 June 2020, the Bank's core tier 1 capital adequacy ratio, tier 1 capital adequacy ratio and capital adequacy ratio were 10.12 per cent., 11.79 per cent. and 14.33 per cent., respectively, which satisfy the regulation requirements. Although the Bank is in compliance with the regulatory requirements as at 30 June 2020, future developments could affect the Bank's ability to continue to satisfy applicable capital adequacy requirements, including:

- changes in PRC accounting rules or in the guidelines regarding the calculation of the capital adequacy ratios of commercial banks;
- increases in the minimum capital adequacy requirements by the banking regulators;
- increases in the Bank's risk-weighted assets as a result of the rapid expansion of its business;
- decreases in the value of the Bank's investment assets;
- losses resulting from deterioration in the Bank's asset quality; and
- decreases in the Bank's net profits and thus decreases in its retained earnings.

In order for the Bank to grow, remain competitive, enter into new businesses, expand its base of operations or meet regulatory capital adequacy requirements, the Bank may require new funding in the future. Moreover, the Bank may need to raise additional capital in the event of any increase in the minimum regulatory capital adequacy requirements by the CBIRC or large losses in its loan portfolio that result in a reduction of its shareholders' equity. The Bank's ability to obtain additional capital in the future is subject to a variety of factors, including:

- its future financial condition, results of operations and cash flows;
- any necessary government regulatory approvals;
- its credit rating;
- general market conditions, especially conditions for capital-raising activities by commercial banks and other financial institutions; and
- economic, political and other conditions both within and outside the PRC.
- If the Bank is unable to obtain sufficient additional capital in a timely and cost effective manner, its business, financial condition and results of operations may be adversely affected.

If the Bank fails to meet the capital adequacy requirements, the CBIRC may require it to take corrective actions, including, for example, restricting the growth of its loans and other assets or restricting its declaration or distribution of dividends. These measures could adversely affect the Bank's reputation, financial condition and results of operations.

The Bank's liabilities mainly comprise short-term funding, principally in the form of deposits, and the Bank's liquidity may be materially and adversely affected if a substantial portion of its short-term deposits fails to roll over upon maturity or if the Bank's banking business is not able to attract sufficient deposits to fund its loan activities.

The Bank regularly monitors the maturity gap between assets and liabilities and assesses liquidity risk of different periods. Most of the funding requirements of the Bank's banking business are met through short-term funding, principally in the form of deposits, including customer deposits and interbank deposits. As at 30 June 2020, approximately 80.06 per cent. of the Bank's liabilities had current maturities of one year or less or were payable on demand. In the past, the Bank's customer deposits have been a stable source of funding for its banking business since the short-term deposits are normally not withdrawn until the maturities of them. There can be no assurance, however, that this practice will continue. If a substantial portion of the Bank's depositors take out their demand deposits or do not roll over deposited funds upon maturity, the Bank's liquidity could be materially and adversely affected, and the Bank may be required to seek more expensive sources of short-term or long-term funding to finance its operations. There can be no assurance that the Bank will be able to obtain finance on normal commercial terms when necessary. Besides, the Bank's ability to obtain additional funding is subject to other factors of which may not be under the Bank's control such as the deterioration in overall market conditions, severe disruptions in financial markets or the poor prospects of Bank's industries with significant credit exposure. These factors could adversely affect the liquidity, business, financial conditions and operation performance of the Bank and have further adverse effect on the market value of the Notes and the Bank's ability of performing obligations under the Notes.

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

The Bank classifies its loans as "pass", "special-mention", "sub-standard", "doubtful" and "loss" by using the five-category classification system according to PRC regulations. The Bank's five-category classification system may be different in certain respects from those of banks incorporated in other countries or regions. As a result, it may reflect a different degree of risk than would be reported if the Bank were incorporated in those countries or regions.

The Bank may be exposed to risks relating to labour and employment.

The Bank faces intense competition in recruiting and retaining employees as other banks are competing for the same pool of talent. Given that PRC labour laws and regulations allow employees to freely choose their jobs, the Bank's employees may choose to resign at any time to pursue other opportunities and may seek to take with them customer relationships that they have developed while working for the Bank. Consequently, the Bank has entered into confidentiality agreements with all of its employees and non-compete agreements with its senior management and other staff members owing a special duty of confidentiality which specify the scope, territory and duration of non-competition. There can be no assurance that such confidentiality agreements and non-compete agreements will enable the Bank to retain its employees effectively or at all.

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

Most aspects of the Bank's business are dependent on the quality of its staff. The Bank devotes considerable resources to recruiting, training and compensating these personnel. However, the Bank faces increased competition in recruiting and retaining these individuals as other banks are competing for the same pool of potential employees. In addition, the Bank's employees may choose to resign at any time to pursue other opportunities and may seek to divert customer relationships that they have developed while working for the Bank. The majority of the Bank's employees are not subject to non-compete agreements.

The Bank's corporate finance operations depend to a significant extent on qualified relationship managers to distribute the Bank's products, and the Bank plans to increase the number and efficiency of these relationship managers. In addition, the Bank intends to increase the number of financial advisers employed by its personal finance operations and enhance their training. However, these plans may not be implemented successfully, if at all.

The Bank's largest shareholders may individually or collectively take actions that are not in, and may conflict with, the best interests of the Bank or the Noteholders.

As at 30 June 2020, the Bank's top three shareholders, MOF, HKSCC Nominees Limited (ultimately held by all institutional and individual investors who maintained an account with it) and The Hongkong and Shanghai Banking Corporation Limited, collectively own, directly and indirectly, 44.99 per cent. of the Bank's outstanding shares. Accordingly, the Bank's largest shareholders may have the ability to individually or collectively exercise significant influence over the Bank's business, including matters relating to:

- the issuance of new securities;
- the election of the Bank's directors and supervisors;
- the Bank's management, especially the composition of its senior management, due to their significant influence over the Bank's Board;
- the Bank's business strategies and policies;

- the timing and amount of the distribution of dividends;
- any plans relating to mergers, acquisitions, joint ventures, investments or divestitures; and
- amendments to the Bank's articles of association (the "Articles of Association").

The Bank's largest shareholders may individually or collectively take actions that investors may not agree with or that are not in the best interests of the Bank or the Noteholders.

The Bank's operations management is dependent on the proper functioning and improvement of its information technology systems. Inability to maintain an effective technology system may have a material adverse effect on the Bank's business, financial condition and results of operations.

The Bank's business is highly dependent on the ability of its information technology systems to timely and accurately collect and process a large amount of financial and other information across numerous and diverse markets and products at its various branches and subsidiaries, at a time when transaction processes and volumes have become increasingly complex and large. The proper functioning of the Bank's financial control, risk management, accounting or other data collection and processing systems, together with the communication networks connecting the Bank's various branches and its main data processing centre, is critical to the Bank's businesses and to its ability to compete effectively. Although the Bank has backup systems that could be used in the event of catastrophe or failure of the primary systems, a partial or complete failure of any of these primary systems or communication networks could adversely affect the decision-making process, the risk management and internal controls of the Bank as well as its timely response to changing market conditions. If the Bank cannot maintain an effective data collection and management system, the Bank's business operations, financial condition and results of operations could be materially and adversely affected.

In addition, the Bank must continually make significant investments, upgrades and improvements in its information technology infrastructure in order to remain competitive. The quality and timing of information available to and received by the Bank's management through its existing information systems may not be sufficient to manage risks or to plan for and respond to changes in market conditions and other developments in the Bank's operations. The Bank may experience difficulties in upgrading, developing and expanding its information technology systems quickly enough to accommodate its growing customer base.

The Bank may be affected by the Financial Institutions (Resolution) Ordinance.

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 to the extent it conducts licensed activities in Hong Kong. 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, the relevant resolution authority is provided with powers to affect contractual and property rights as well as payments (including in respect of any priority of payment) that creditors would receive in resolution. These may include, but are not limited to, powers to cancel, write off, modify, convert or replace all or a part of the Notes or the principal amount of, or interest on, the Notes, and powers to amend or alter the contractual provisions of the Notes, all of which may adversely affect the value of the Notes, and the holders thereof may suffer a loss of some or all of their investment as a result. Holders of Notes (whether senior or subordinated) may become subject to and bound by the FIRO. 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, its operations and/or its financial position.

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

As a result of current PRC regulatory restrictions, substantially all of the Bank's Renminbi-denominated investment assets are concentrated in a limited number of investments permitted for PRC commercial banks, such as debt securities issued by central governments and central banks, public sector entities, banks and other financial institutions. The Bank is only permitted to a limited degree to invest in debt and equity securities of eligible corporate entities. These restrictions on the Bank's ability to diversify its investment portfolio limit the Bank's ability to seek an optimal return. In addition, the Bank is exposed to a certain level of risk as a result of the concentration of its Renminbi-denominated investment securities. For example, any deterioration of the financial condition of commercial banks in China would increase the risks associated with holding their debt securities. Consequently, a decrease in the value of any of these types of investments could have a material adverse effect on the Bank's financial condition and results of operations.

The Bank may be subject to administrative sanctions, fines and other penalties for violations, particularly for using its funds in a manner that is inconsistent with, or impermissible under, the applicable limitations set forth in the PRC Commercial Banking Law.

The PRC Commercial Banking Law, which became effective in July 1995, prohibits any investment by a PRC financial institution in a non-financial institution. As at 30 June 2020, the Bank had holdings or investments in a few non-financial institutions, which were required to be disposed under the 1995 PRC Commercial Banking Law. These investments were completed prior to the enactment of the 1995 PRC Commercial Banking Law. The Bank has been unable to completely dispose of these investments primarily because: (1) certain of these institutions are undergoing bankruptcy or liquidation; (2) the Bank's investments in certain institutions is small, making it difficult to find a buyer for these investments; and (3) the Bank is unable to find buyers for some of the investments due to their poor market liquidity and low rates of return. The Bank has been active in its efforts to terminate these investments, including making provisions for impairment; writing off or disposing of these investments in accordance with relevant rules and policy changes; actively seeking purchasers for its shareholdings in these institutions; and otherwise disposing of these investments in accordance with reasonable market terms. While the Bank has not been subject to any material administrative sanctions, fines or other penalties for such investments, there can be no assurance that the relevant regulatory authorities would not take additional actions against the Bank in the future. Any future administrative sanctions, fines or other penalties, including those discussed above, may have a material adverse effect on the Bank's business, financial condition and results of operations.

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

The Bank is subject to various PRC and overseas regulatory requirements, and the PRC and overseas regulatory authorities conduct periodic inspections, examinations and inquiries in respect of its compliance with such requirements. On occasion the Bank may fail to comply with certain requirements and guidelines set by the relevant regulatory authorities. If sanctions, fines and other penalties are imposed on the Bank for failing to comply with applicable requirements, guidelines or regulations, the Bank's business, financial condition, results of operations and its reputation may be materially and adversely affected.

Notwithstanding that such business activities may not themselves be subject to sanctions, the Group may face secondary sanctions if it is determined to be providing material support to countries or entities that are the subject of sanctions. If the Group engages in any prohibited transactions by any means, or if it is otherwise determined that any of its transactions violated OFAC-administered or other sanctions regulations, the Group could be subject to penalties, and the Group's reputation and ability to conduct future business in the United States or with U.S. entities, or in other affected jurisdictions, could be affected, which may materially and adversely affect the Group's business, financial condition and results of operations and the Issuer's ability to make payments, and satisfy the Group's other obligations, under the Notes may also be adversely affected.

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

The Bank acts primarily as an intermediary in domestic and international foreign exchange and derivative markets, and the Bank currently has foreign currency forward and swap arrangements with a number of domestic and international banks, financial institutions and other entities. The Bank also has interest rate swap arrangements. The Bank does not typically enter into foreign currency or interest rate derivative arrangements for its own account but are subject to credit risk from its various counterparties. As at 30 June 2020, the notional amount of the Bank's outstanding derivative financial instruments amounted to RMB6,824,052 million, and the fair values of the Bank's outstanding derivative assets and liabilities amounted to RMB28,130 million and RMB41,303 million, respectively. Although the Bank believes that the overall credit quality of its counterparties is adequate, there can be no assurances that parties which the Bank has significant exposures to will not face difficulty in paying amounts on derivative contracts when due.

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

In recent years, the Bank has continued to expand its international operations. As at 30 June 2020, the Bank had overseas subsidiaries branches and representative offices in Hong Kong, New York, Tokyo, Singapore, Seoul, Frankfurt, Macau, Ho Chi Minh City, San Francisco, Sydney, Taipei, London, Luxembourg, Brisbane, Paris, Rome, Brazil, Toronto, Melbourne and Prague with a total of 68 overseas operation outlets (excluding the representative office). The Bank's international expansion into multiple jurisdictions exposes it to a variety of regulatory and business challenges and risks and has increased the complexity of the Bank's risks in a number of areas, including currency risk, interest rate risk, credit risk, regulatory and compliance risk, reputational risk and operational risk. The loan portfolio of the Bank's international branches includes foreign currency-denominated loans to PRC companies engaged in international trade. This exposes the Bank to additional risks including default risk resulting from the failure in the performance of the import or export agreements by any party, trade protectionist measures or other factors, and the Bank's inexperience in various aspects of the economic and legal framework in overseas markets. Adverse market conditions in these international jurisdictions may result in mark-to-market and realised losses on the investment assets held by the Bank's overseas branches and subsidiaries and increase their cost of funding. Furthermore, despite the Bank's best efforts to comply with all applicable regulations in all the jurisdictions in which the Bank operates, there may be incidents of its failure to comply with the regulations in certain jurisdictions. Regulators have the power to bring administrative or judicial proceedings against the Bank or its employees, representatives, agents and third party service providers, which could result, among other things, in suspension or revocation of one or more of the Bank's licenses, cease and desist orders, fines, civil penalties, criminal penalties or other disciplinary actions. In addition, the recent global financial crisis is expected to lead to significant regulatory changes in various jurisdictions, including those in which the Bank has operations. These changes may include changes with respect to capital and liquidity ratios, cross-border capital flows and consumer protection.

The extent and impact of such changes is difficult to anticipate and estimate and such changes could have an adverse impact on the Bank's growth, capital adequacy and profitability. If the Bank is unable to manage the risks resulting from its international expansion, its business, reputation, results of operations and financial condition may be adversely affected.

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

The Bank does not hold the land use right certificates or building ownership certificates of some land or buildings it occupies. The Bank will apply for relevant land use right certificates and building ownership certificates that it does not yet hold. Upon obtaining the relevant certificates for these properties, the Bank will have the legal right to occupy, let, transfer and mortgage such property. The Bank may not be able to obtain all of the title deeds for the defective properties and the Bank is uncertain how the Bank's rights as owner/occupier of these defective properties would be adversely affected as a result of the absence of the title deeds as described above.

The Bank leases multiple properties as its operating offices for its branches in China. There can be no assurance that the lessors of all these properties possess the relevant land use right certificates or building ownership certificates and third parties may therefore challenge the validity of the Bank's lease. If any of the Bank's leases were terminated as a result of being challenged by third parties, the Bank may be forced to seek alternative premises for these offices. If the Bank fails to find alternatives of these offices with acceptable terms, the Bank's business, financial conditions and operation performance may be adversely affected.

The implementation of International Financial Reporting Standards 9 ("IFRS 9") with effect from 1 January 2018 renders the Bank's historical financial information as at and for the year ended 31 December 2017 not directly comparable with the Bank's financial information after 1 January 2018.

With effect from the 1 January 2018, the IFRS 9 has replaced in entirety the IAS 39. Following the adoption of IFRS 9, the Bank is required to re-classify and re-measure (including impairment measurement) certain of its financial instruments from 1 January 2018 without requiring any restatement of the corresponding figures of the prior period. Investors must therefore exercise caution when making comparisons of any financial figures after 1 January 2018 against the Bank's historical financial figures prior to 1 January 2018 and when evaluating the Bank's financial condition and results of operations.

The Bank has increased its allowance for impairment losses to cover future actual losses and estimated losses to its loan portfolio in accordance with the implementation of IFRS 9.

The Bank determines a level of allowance for impairment losses and recognises any related provisions made in a year using the concept of impairment under IFRS 9. The Bank'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 Bank's allowance for impairment losses, as determined under the provisioning policies, may differ from those that would be reported if it was incorporated in those countries or regions.

As at 31 December 2017, 2018 and 2019 and 30 June 2020, the Bank's impairment allowances for loans and advances were RMB106,001 million (impairment allowance under IAS39), RMB123,861 million (expected credit loss allowance, "ECL Allowance", under IFRS 9), RMB132,719 million (ECL Allowance) and RMB141,317 million (ECL Allowance), respectively, and the Bank's provision coverage ratio, calculated by dividing the outstanding balance of its impairment allowances by the outstanding balance of impaired loans, was 154.73 per cent., 173.13 per cent., 171.77 per cent. and 148.73 per cent., respectively. The Bank's business, financial position and results of operations may be affected by its policies regarding provisioning. If the Bank's approach to provisioning policies proves not to be adequate, the Bank's business, financial position and results of operations may be negatively affected, which in turn may negatively affect the Bank's ability to service the Notes and to satisfy its other obligations under the Notes.

Risks Relating to the PRC Banking Industry

The highly competitive nature of the PRC banking industry could adversely affect the Bank's profitability.

The PRC banking industry is intensely competitive. The Bank competes primarily with the other four largest PRC commercial banks (including Industrial & Commercial Bank of China, Agricultural Bank of China, China Construction Bank and Bank of China), as well as to a lesser extent with other national commercial banks and foreign financial institutions. Certain of the other largest PRC commercial banks may have greater financial and other resources than the Bank does, and may be able to provide more access to customers due to their geographical coverage. In addition, the expansion of joint stock commercial banks in the PRC has intensified competition. In particular, some of these commercial banks may have less impaired loans due to their shorter operating history or better credit management. Furthermore, many other PRC commercial banks compete with the Bank for substantially the same loan, deposit and fee customers.

Following the removal of regulatory restrictions on foreign-invested commercial banks' geographical presence, customer base and operating license in China in December 2006 as part of WTO accession commitments, the Bank has experienced increased competition from such banks. Furthermore, the Mainland and Hong Kong Closer Economic Partnership Arrangement, which permits smaller Hong Kong banks to operate in China, has also increased competition in China's banking industry.

The increased competitive pressures resulting from these and other factors may materially and adversely affect the Bank's business and prospects, as well as have a material adverse effect on the Bank's financial condition and results of operations by, among other things:

- reducing the Bank's market share in its principal products and services;
- affecting the growth of the Bank's loan or deposit portfolios and other products and services;
- decreasing the Bank's interest income or increasing its interest expense, thereby decreasing its net interest margin;
- reducing the Bank's fee and commission income;
- increasing the Bank's non-interest expenses, such as marketing expenses;
- deteriorating the Bank's asset quality; and
- increasing competition for senior management and qualified professional personnel.

The Bank's businesses are highly regulated and the Bank may be materially and adversely affected by future regulatory changes.

The Bank's business and operations are directly affected by changes in China's policies, laws and regulations relating to the banking industry, such as those affecting the extent to which the Bank can engage in specific businesses, as well as changes in other governmental policies. The principal regulators of the PRC banking industry include the CBIRC, the PBOC and the National Audit Office.

In exercising their authority, these regulators are given wide discretion. The bank regulatory regime in China has been undergoing significant changes, some of which are applicable to the Bank and may result in additional costs or restrictions on the Bank's activities. There can be no assurance that the policies, laws and regulations governing the banking industry will not change in the future or that any such changes will not materially and adversely affect the Bank's business, financial condition and results of operations nor can there be any assurance that the Bank will be able to adapt to all such changes on a timely basis. In addition, there may be uncertainties regarding the interpretation and application of new policies, laws and regulations. Failure to comply with the applicable policies, laws and regulations may result in fines and restrictions on the Bank's activities, which could also have a significant adverse impact on the Bank's business.

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

The Bank expects the banking market in the PRC to expand as a result of anticipated growth in the PRC economy, increases in household wealth, continued social welfare reform, 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 pace of economic growth in the PRC, the PRC's implementation of its commitment to WTO accession and the ongoing reform of the social welfare system is currently not clear. Consequently, there can be no assurance that the growth and development of the PRC banking market will be sustainable.

Fluctuations in interest rates as well as the Bank's limited ability to adjust the interest rates the Bank charge on its assets or pay on its liabilities may adversely affect the Bank's lending operations and its financial condition.

As with most commercial banks, results of the Bank's operations depend to a great extent on its net interest income. Fluctuations in interest rates could affect the Bank's financial condition and results of operations and profitability in different ways. For example, a decrease in interest rates may reduce the Bank's interest income as well as yields from interest-earning investments. An increase in interest rates may decrease the value of the Bank's investment debt securities portfolio and raise its funding costs. In addition, an increase in interest rates may reduce overall demand for loans, and, accordingly, reduce the Bank's origination of new loans, as well as increase the risk of customer default. Interest rate fluctuations will also affect the market value of and return on derivative financial instruments. Volatility in interest rates may also result in a gap between the Bank's interest rate sensitive assets and interest rate sensitive liabilities. As a result, the Bank may be required to incur additional costs to adjust its interest rate sensitive assets and liabilities, and its net interest income may decrease.

In addition, increasing competition in the banking industry and further liberalisation of the interest rate regime may result in more volatility in market interest rates. If the interest rates the Bank pays for its deposits increase to a greater extent than the interest rates the Bank receives for its loans, the Bank's net interest margin will narrow, leading to a reduction in the Bank's net interest income. Increases in interest rates might also affect borrowers' financial condition and hence their ability to repay loans.

As a result, fluctuations in interest rates may adversely affect the Bank's deposit taking and lending operations and its financial condition.

Results of the Bank's operations may be materially and adversely affected if the PBOC further liberalises the regulation of interest rates.

In recent years, the PBOC has adopted reform measures to liberalise China's interest rate regime. For example in 2002, the PBOC substantially liberalised interest rates for foreign currency-denominated loans and deposits. In October 2004, the PBOC eliminated restrictions in respect of the maximum interest rate for Renminbi-denominated loans and the minimum interest rate for Renminbi-denominated deposits. In June 2012, the PBOC adjusted the upper limit for the floating range of interest rates on deposits and the lower limit for such floating range of interest rates on loans.

On 19 July 2013, the PBOC published the "Notice on Furthering Market-based Interest Rate Reform" pursuant to which, other than the restriction that commercial banks in China cannot set interest rates for Renminbi-denominated residential mortgage loans below 70 per cent. of the relevant PBOC benchmark rate applicable (since 27 October 2008), restrictions on the loan interest rates were fully liberalised. According to existing PBOC regulations, Renminbi-denominated deposits in commercial banks in China remain subject to restrictions and the interest rate for Renminbi-denominated deposits cannot be set above 150 per cent. of the relevant PBOC benchmark rate. On 25 October 2013, the 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, the PBOC has adjusted the benchmark interest rates several times. The PBOC released the Announcement No. 15 [2019] - Announcement of the People's Bank of China on the Decision to Reform and Improve the Formation Mechanism of Loan Prime Rate (LPR) on 16 August 2019, for the purposes of deepening the market-oriented reform of interest rate, improving the transmission efficiency of interest rate, and promoting the reduction of the financing cost of the real economy. Considering the status and trends of China's reform on interest rates, the PBOC may further promote the market-orientation reform in respect of the interest rates actively and steadily and liberalise the restrictions on the interest rates. If the existing regulations were substantially liberalised or eliminated, competition in China's banking industry would likely intensify as China's commercial banks seek to offer more attractive rates to customers. Further adjustments by the PBOC to the benchmark interest rates or liberalisation by the PBOC would 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 Banks's business, financial conditions and results of operations, and further affecting the Bank's ability to perform its obligations under the Notes.

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

National credit information databases developed by the PBOC have been operational for a few years. In addition, due to limitations on the availability of information and the developing information infrastructure in China, national credit information databases are generally under-developed and are not able to provide complete credit information on many of the Bank's credit applicants. Therefore, the Bank's assessment of the credit risk associated with a particular customer may not be based on complete, accurate or reliable information. As a result, the Bank's ability to effectively manage its credit risk may be materially and adversely affected.

The Bank cannot guarantee the accuracy of facts and statistics contained in this Offering Circular with respect to the PRC, its economy or its banking industry or its leasing industry.

Some of the facts and statistics in this Offering Circular relating to the PRC, its economy and its banking industry are derived from various official and other publicly available sources generally believed to be reliable. However, the Bank cannot guarantee the quality and reliability of such sources. In addition, these facts and statistics have not been independently verified by the Bank and therefore the Bank makes no representation as to the accuracy of such facts 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. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the statistics herein may be inaccurate or may not be comparable from period to period or to statistics produced for other economies and should not be unduly relied upon.

Risk Relating to Hong Kong

Civil unrest could have an adverse impact on the Bank's business, financial condition or operating results.

Civil unrest, protests, demonstrations or rioting causing mass disruption to businesses and transportation may result in a decrease in consumer spending and reduced usage of the services that the Bank provides. Consumers may avoid areas affected by social upheaval or are unable to reach these areas due to a disruption in transportation. There is no assurance that any unforeseeable interruptions to the business and operations of the Bank's stores and wider business can be mitigated or avoided. Moreover, prolonged civil unrest and an uncertain political environment, including any declaration by the Chief Executive of Hong Kong of a state of emergency pursuant to the Emergency

Regulations Ordinance (Cap. 241 of the laws of Hong Kong) (the "ERO") which confers on the Chief Executive power to make any regulations whatsoever which he/she may consider desirable in the public interest in an occasion of emergency or public danger, may impact the Hong Kong economy and result in an economic slowdown. With fewer tourists travelling to Hong Kong, inbound tourism may be affected which in turn may negatively affect the Hong Kong retail and hospitality industries. Civil unrest and instability may also dampen market confidence and sentiments. Political or economic instability, or a sustained slowdown in domestic economic activities may adversely affect the Bank's investments in the retail, transport and finance sectors as well as the return of the Bank's other strategic investments. Civil unrest is outside the control of the Bank. Any demonstrations, protests or riots causing disruption to the city, the authorities' reaction to any such protests or riots if they recur, the Chief Executive's decision to make any declaration of a state of emergency and the instability of the political and economic conditions in the region, could adversely impact the Bank's business, financial condition and results of operations and the price of the Notes traded in the secondary market.

Risks Relating to the PRC

Substantially all of the Bank's assets are located in the PRC, and substantially all of the Bank's revenues are derived from its operations in the PRC. Accordingly, the Bank's financial condition, results of operations and prospects will be affected to a significant extent by economic, political and legal developments in the PRC.

PRC economic, political and social conditions and government policies could affect the Bank's financial condition and results of operation.

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

China's economy has historically been subject to macro-control by the government. A substantial portion of productive assets in China is still state-owned by the PRC government. The government also exercises significant control over China's economic growth by allocating resources, setting monetary or fiscal policy and providing preferential treatment to particular industries or companies. These measures are aimed to benefit the overall economy of the PRC, but some of them may have a negative effect on certain industries, including the commercial banking industry. For example, the Bank's operating results may be adversely affected by government control over capital investments or changes in, interpretation of, and application of applicable tax regulations.

The PRC government has the power to implement macroeconomic control measures affecting China's economy. The PRC economy has grown significantly in recent years. However, since the global financial crisis, China's GDP experienced slower growth than that of previous years. In response to the global financial crisis and market volatility, the PRC government, began to implement a series of macroeconomic measures and moderately loose monetary policies, which included announcing an economic stimulus package and reducing benchmark interest rates. Certain of such macroeconomic measures had an adverse effect on the Bank's financial condition, results of operations and asset quality. The PRC government had previously implemented a series of measures to slow the pace of economic growth of the PRC economy by raising interest rates and the required reserve ratio and issuing administrative guidelines to control lending to certain industries. There is evidence that the PRC government may again be taking measures to slow the pace of growth following the success of the economic stimulus package, including a reduction in bank lending quotas, an increase in the proportion of banks' assets required to be held in the form of reserves, a reduction in maximum loan-to-valuation ratios for property investment lending and a marginal increase in the short-term interest rate. Additionally, the risk exists that the global economy, including the PRC economy, may suffer a "double dip" recession and the PRC government may have to readjust its macroeconomic control measures accordingly.

Furthermore, the sustained tension between China and the United States over trade policies could undermine the stability of the global economy. China and the United States have recently been involved in disputes over trade barriers that have created trade tensions 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. There are uncertainties as to when and whether the trade disputes will be resolved and trade barriers lifted. All these would add to the uncertainties relating to the overall prospects for the global and the PRC economies this year and beyond, which may have a material adverse impact to the Group's business, prospects, financial conditions and results of operations.

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

The Bank is incorporated and exist under the laws of PRC. The PRC legal system is based on written statutes. Since the late 1970s, China has promulgated laws and regulations dealing with such economic matters as the issuance and trading of securities, foreign investment, corporate organisation and governance, commerce, taxation and trade. 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 PRC laws and regulations may adversely affect the legal protections and remedies that are available to the Bank in its operations.

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

The Bank is a company incorporated under the laws of the PRC, and substantially all of the Bank's business, assets and operations are located in China. In addition, a majority of the Bank's directors, supervisors and executive officers reside in China, and substantially all of the assets of such directors, supervisors and executive officers are located in China. Therefore, it may be difficult for investors to effect service of process upon the Bank or those persons inside China. China has not entered into treaties or arrangements providing for the recognition and enforcement of judgments made by courts of most other jurisdictions. 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.

Furthermore, China does not have treaties or agreements providing for the reciprocal recognition and enforcement of judgments awarded by courts of the United States, the United Kingdom, or most other European countries or Japan. Therefore, it may be difficult for Noteholders to enforce any judgments obtained from such foreign courts against the Group, the Bank or any of their respective directors or senior management in the PRC.

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

Since 2020, the pandemic of COVID-19 has spread around the world, becoming the most severe shock to hit the global economy after the 2008 global financial crisis. With the normalisation of domestic pandemic prevention and control and gradual improvements in domestic demand, China's economy is recovering. Overall, both opportunities and challenges exist in the banking industry. 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 United Kingdom, 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 policies and suspension or relaxation of capital requirements on the banks. These measures aim to reduce the economic impact of the COVID-19 pandemic, stabilise the capital markets and increase market liquidity. 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 overcome challenges resulting from COVID-19.

In response, the Bank will continue to uphold the new concept of development, focus on value creation and adhere to stable operations while making full use of the geographical advantage of its presence in Shanghai and Fintech services in the second half of 2020 to ensure stable income. After the outbreak of the epidemic of COVID-19, the Group strictly followed the regulatory policies and requirements and prudently evaluates the repayment ability of the clients who apply for extension for repayment. The Group has taken certain methods such as providing extensions to qualified clients to help them overcome financial challenges due to COVID-19 on the basis that such measures would not enlarge subsequent risks or affect future collection. As at 30 June 2020, affected by COVID-19 and other factors, some customer risks accelerated to expose, for example, customer loans in the manufacturing, wholesale and retail and real estate sectors. A significant portion of the Bank's impaired corporate loans is concentrated in the manufacturing, wholesale and retail and real estate sectors. There was an obvious pressure on the Bank's quality of credit assets. As at 30 June 2020, the non-performing loans of the Group amounted to RMB96.29 billion and its impaired loan ratio was 1.68 per cent., representing an increase of RMB18.25 billion and an increase of 0.21 percentage, respectively, over the end of the previous year. Any occurrence of a similar epidemic with a severe domestic or global impact could restrict the level of economic activities generally and/or slow down or disrupt the Bank's business activities including, but not limited to, a decline in demand for residential mortgage advances, a reduction in the number of customers visiting the Bank's branches and an adverse impact on asset quality due to a weakened economy and higher unemployment rate which could in turn adversely affect the Bank's business or financial condition or results of operations.

Concerns about the spread of COVID-19 and H7N9 strain of flu (the "Avian Flu") in China and globally and outbreaks of the H1N1 virus (the "Swine Flu") in North America, Europe and Asia in the past have caused governments to take measures to prevent spread of the virus. The outbreak of communicable diseases such as the ones listed above on a global scale may affect investment sentiment and result in volatility in global capital markets or adversely affect PRC and other economies.

Moreover, China has experienced natural disasters like earthquakes, floods and drought in the past few years. Any future occurrence of severe natural disasters in China may adversely affect its economy and in turn the Bank's business. The Bank will continue to pay close attention to the progression of the epidemic and actively assess and respond to its impacts on the Bank's financial position and operating results. There can be no assurance that the Bank's business, financial condition and result of operations would not be adversely affected if an outbreak of a similar pandemic such as COVID-19, Swine Flu, SARS, Avian Flu or another highly contagious disease occurs. There can be no assurance that the Bank's business, financial condition and result of operations would not be adversely affected if another outbreak of a natural disaster occurs.

Risk Relating to the Notes issued under the Programme

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

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

The quarterly interim reports have not been and will not be audited by the Bank's auditors and were and will be prepared under IFRS. The quarterly interim reports should not be relied upon by investors to provide the same quality of information associated with information that has been subject to an audit. Potential investors should exercise caution when using such data to evaluate the Bank's financial condition and results of operations. The quarterly interim reports should not be taken as an indication of the expected financial condition or results of operations of the Bank for the relevant full financial year.

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

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

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

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

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

- understand thoroughly the terms of the relevant Notes and be familiar with the behaviour of any relevant indices and financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

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

The Terms and Conditions of the Notes contain provisions which may permit their modification without the consent of all investors.

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

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

The Terms and Conditions of the Notes also provide that the Fiscal Agent may, without the consent of Noteholders, agree to (a) any modification (except such modifications in respect of which an increased quorum is required as mentioned above) of the Notes, the Receipts, the Coupons or the Agency Agreement (as defined in the "Terms and Conditions of the Notes") which is not prejudicial to the interests of the Noteholders; or (b) any modification of the Notes, the Receipts, the Coupons or the Agency Agreement which is of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of the law as described in Condition 11(b).

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.

Additional procedures may be required to be taken to hear English law governed matters in the Hong Kong courts. There is also no assurance that the PRC courts will recognise and enforce judgments of the Hong Kong courts in respect of English law matters.

The Terms and Conditions of the Notes and the Programme documents are governed by English law, whereas parties to these documents have submitted to the exclusive jurisdiction of the Hong Kong courts. In order to hear English law governed matters, Hong Kong courts may require certain additional procedures to be taken. Hong Kong and the PRC have entered into certain Reciprocal

Arrangements which allow for a final court judgment (relating to the payment of money or other civil or commercial proceedings) 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, recognition and enforcement of a Hong Kong court judgment could be refused if the PRC courts consider that the enforcement of such judgment is contrary to the social and public interest of the PRC or meets other circumstances specified by the Reciprocal Arrangements. While it is expected that the PRC courts will recognise and enforce a judgment given by Hong Kong courts governed by English law, there can be no assurance that the PRC courts will do so for all such judgments as there is no established practice in this area. Compared to other similar debt securities issuances in the international capital markets where the relevant holders of the debt securities would not typically be required to submit to an exclusive jurisdiction, the Noteholders will be deemed to have submitted to the exclusive jurisdiction of the Hong Kong courts, and thus the holder's ability to initiate a claim outside of Hong Kong will be limited.

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

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

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

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

Risks Relating to the Structure of a Particular Issue of Notes

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

The relevant Issuer may redeem outstanding notes for tax reasons.

Unless in the case of any particular Tranche of Notes the relevant Pricing Supplement specifies otherwise, in the event that the relevant 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 Hong Kong, PRC, or any other jurisdiction to which the Issuer becomes subject in respect of payments made by it of principal and interest on the Notes 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 Conditions.

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

An optional redemption feature is likely to limit the market value of Notes. During any period when the relevant 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 may also be true prior to any redemption period. The relevant Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At such times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

Index linked Notes and dual currency Notes.

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

- the market price of such Notes may be volatile;
- they may receive no interest;
- payment of principal or interest may occur at a different time or in a different currency than expected;
- they may lose all or a substantial portion of their principal;
- a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;
- if a Relevant Factor is applied to Notes in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable will likely be magnified; and
- the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

The historical experience of an index should not be viewed as an indication of the future performance of such index during the term of any index linked Notes. Accordingly, each potential investor should consult its own financial and legal advisers about the risk entailed by an investment in any index linked Notes and the suitability of such Notes in light of its particular circumstances.

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

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

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 those 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 LIBOR. The market values of such Notes are typically more volatile than market values of other conventional floating rate debt securities based on the same reference rate (and with otherwise comparable terms). Inverse floating rate Notes are more volatile because an increase in the reference rate not only decreases the interest rate of the Notes, but may also reflect an increase in prevailing interest rates, which further adversely affects the market value of 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 or floating rate Notes may bear interest at a rate that the relevant Issuer may elect to convert from a fixed rate to a floating rate, or from a floating rate to a fixed rate. The relevant Issuer's ability to convert the interest rate will affect the secondary market and the market value of such Notes since such Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the relevant Issuer converts from a fixed rate to a floating rate, the spread on the fixed or floating rate Notes may be less favourable than the 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 relevant Issuer converts from a floating rate to a fixed rate, the fixed rate may be lower than the then prevailing rates on its Notes.

Notes carrying an interest rate linked to "benchmarks" may be exposed to any changes to the relevant "benchmark".

Reference rates and indices, including interest rate benchmarks such as LIBOR and EURIBOR, which are used to determine the amounts payable under financial instruments or the value of such financial instruments ("Benchmarks") have, in recent years, been the subject of political and regulatory scrutiny as to how they are created and operated. This has resulted in regulatory reform and changes to existing Benchmarks, with further changes anticipated. Some of these reforms are already effective whilst others are still to be implemented. These reforms and changes may cause a Benchmark to perform differently than it has done in the past or to be discontinued, or have consequences which cannot be predicted.

Regulation (EU) 2016/1011 (the "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 European Union supervised entities of benchmarks of administrators that are not authorised or registered (or, if non-European Union based, not deemed equivalent or recognised or endorsed).

The Benchmarks Regulation 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 Benchmarks Regulation. 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 or national 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 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 United Kingdom Financial Conduct Authority ("FCA") has indicated through a series of announcements that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021.

In addition, on 29 November 2017, the Bank of England and the FCA announced that, from January 2018, its Working Group on Sterling Risk-Free Rates has been mandated with implementing a broad-based transition to the Sterling Overnight Index Average ("SONIA") over the next four years across sterling bond, loan and derivative markets, so that SONIA is established as the primary sterling interest rate benchmark by the end of 2021.

Separate workstreams are also underway in Europe to reform EURIBOR using a hybrid methodology and to provide a fallback by reference to a euro risk-free rate (based on a euro overnight risk-free rate as adjusted by a methodology to create a term rate). On 13 September 2018, the working group on euro risk-free rates recommended Euro Short-term Rate ("€STR") as the new risk free rate. €STR is expected to be published by the European Central Bank by October 2019. In addition, on 21 January 2019, the euro risk free-rate working group published a set of guiding principles for fallback provisions in new euro denominated cash products (including bonds). The guiding principles indicate, among other things, that continuing to reference EURIBOR in relevant contracts may increase the risk to the euro area financial system.

The potential elimination of the LIBOR benchmark, or changes in the manner of administration of any other benchmark, may cause a Benchmark to perform differently than it has done in the past or to be discontinued, and could require an adjustment on the terms and conditions, or result in other consequences, in respect of any Notes referencing or linked to such Benchmark (including but not limited to LIBOR). Any such consequence could have a material adverse effect on the value of and return on any such Notes.

The Terms and Conditions of the Notes provide for certain fallback arrangements in the event that a Benchmark Event occurs, including if an inter-bank offered rate (such as LIBOR or EURIBOR) or other relevant reference rate (which could include, without limitation, any mid-swap rate), and/or any page on which such benchmark may be published (or any successor service) becomes unavailable, or if any Paying Agent, Calculation Agent, the Issuer or other party is no longer permitted lawfully to calculate interest on any Notes by reference to such benchmark. Such fallback arrangements include the possibility that the rate of interest could be set by reference to a Successor Rate or an Alternative Reference Rate (both as defined in the Terms and Conditions of the Notes), with or without the application of an adjustment spread which, if applied, could be positive or negative, and would be applied with a view to reducing or eliminating, to the fullest extent reasonably practicable in the circumstances, any economic prejudice or benefit (as applicable) to investors arising out of the replacement of the relevant benchmark), and may include amendments to the Terms and Conditions of the Notes to ensure the proper operation of the successor or replacement benchmark.

Under these fallback arrangements, the Issuer will use all reasonable endeavours to appoint, as soon as reasonably practicable, an Independent Adviser (as defined in the Terms and Conditions of the Notes) to determine the Successor Rate or Alternative Reference Rate (as applicable) no later than five Business Days (as defined in the Terms and Conditions of the Notes) prior to the relevant Interest Determination Date (as defined in the Terms and Conditions of the Notes), but in the event that the Issuer is unable to appoint an Independent Adviser, or such Independent Adviser fails to determine the Successor Rate or Alternative Reference Rate (as applicable), the Issuer (acting in a reasonable manner) will have discretion to, amongst other things, determine the relevant Successor Rate or Alternative Reference Rate (as applicable). There can be no assurance that such Successor Rate or Alternative Reference Rate (as applicable) determined by the Issuer will be set at a level which is on terms commercially acceptable to all Noteholders.

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

Investors should consult their own independent advisers and make their own assessment about the potential risks imposed by 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 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.

Notes issued at a substantial discount or premium.

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

Perpetual Notes may be issued for which investors have no right to require redemption.

Any perpetual Notes issued under the Programme are perpetual and have no fixed final maturity date. Holders of perpetual Notes have no right to require the Issuer to redeem perpetual Notes at any time, and an investor who acquires perpetual Notes may only dispose of such perpetual Notes by sale.

Holders of perpetual Notes who wish to sell their perpetual Notes may be unable to do so at a price at or above the amount they have paid for them, or at all. Therefore, holders of perpetual Notes should be aware that they may be required to bear the financial risks of an investment in perpetual Notes for an indefinite period of time.

Credit ratings may not reflect all risks.

One or more independent credit rating agencies may assign credit ratings to an issue of Notes. The ratings may not reflect the potential impact of all risks related to structure, market and additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

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). There can be no assurance as to the liquidity of the Notes or that an active trading market will develop. The liquidity of the Notes could be affected by various factors, and in particular, if a limited number of investors subscribes for a significant portion of the Notes. Such investors may include the Issuer and entities affiliated with the Issuer. 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 as 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 an application will be made for the Notes issued under the Programme to be admitted to listing on the HKSE, 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 and crossover grade debt has been subject to disruptions that have caused volatility in prices of securities similar to the Notes that may be issued under the Programme. Accordingly, there can be no assurance as to the development or liquidity of any trading market, or that disruptions will not occur, for any particular Tranche of Notes.

This is particularly the case for Notes that are especially sensitive to interest rate, currency or market risks, designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Notes generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have an adverse effect on the market value of the Notes.

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

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

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

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.

Legal investment considerations may restrict certain investments.

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

Risks Relating to Renminbi-denominated Notes

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

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

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 significant reduction in control by it in recent years over trade transactions involving the import and export of goods and services as well as other frequent routine foreign exchange transactions. These transactions are known as current account items. However, remittance of Renminbi by foreign investors into the PRC for settlement of capital account items, such as capital contributions, is generally only permitted upon obtaining specific approvals from or completing specific registrations or filing with the relevant authorities on a case-by-case basis and 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 being developed.

Although the Renminbi was added to the Special Drawing Rights basket created by the International Monetary Fund in 2016 and policies further improving accessibility to Renminbi to settle cross-border transactions in foreign currencies were implemented by the PBOC in 2018, there is no assurance that the PRC government will continue to gradually liberalise control over cross-border remittance of Renminbi in the future, that any 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 outside the PRC.

In the event that funds cannot be repatriated outside the PRC in Renminbi, this may affect the overall availability of Renminbi outside the PRC and the ability of the Issuer to source Renminbi to finance its obligations under Notes denominated in Renminbi. In the event that the Issuer decides to remit some or all of the proceeds into the PRC in Renminbi, its ability to do so will be subject to obtaining all necessary approvals from, and/or registration or filing with, the relevant PRC government authorities. However, there can be no assurance that the necessary approvals from, and/or registration or filing with, the relevant PRC government authorities will be obtained at all or, if obtained, they will not be revoked or amended in the future.

In the event that the Issuer does remit some or all of the proceeds into the PRC in Renminbi and the Issuer subsequently is not able to repatriate funds outside the PRC in Renminbi, it will need to source Renminbi outside the PRC to finance its obligations under the RMB Notes, and its ability to do so will be subject to the overall availability of Renminbi outside the PRC.

Holders of beneficial interests in RMB Notes may be required to provide certifications and other information (including Renminbi account information) in order to allow such holder to receive payments in Renminbi in accordance with the Renminbi clearing and settlement system for participating banks in Hong Kong.

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

As a result of the restrictions imposed by the PRC government on cross-border Renminbi fund flows, the availability of Renminbi outside the PRC is limited. While the PBOC has entered into agreements on the clearing of Renminbi business with financial institutions in a number of financial centres and cities (the "Renminbi Clearing Banks"), including but not limited to Hong Kong, and are in the process of establishing Renminbi clearing and settlement mechanisms in several other jurisdictions (the "Settlement Arrangements"), the current size of Renminbi-denominated financial assets outside the PRC remains 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 to square 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 the offshore market to square such open positions.

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

Investment in RMB Notes is subject to exchange rate risks.

The value of Renminbi against the U.S. dollar and other foreign currencies fluctuates from time to time and is affected by changes in the PRC and international political and economic conditions as well as other factors. In August 2015, the PBOC changed the way it calculates the mid-point price of Renminbi against the U.S. dollar, requiring the market-makers who submit for the PBOC's reference rates to consider the previous day's closing spot rate, foreign-exchange demand and supply as well as changes in major currency rates. This change, and other changes such as widening the trading band that may be implemented, may increase volatility in the value of the Renminbi against foreign currencies. The Issuer will make all payments of interest and principal with respect to the RMB Notes in Renminbi unless otherwise specified. As a result, the value of these Renminbi payments may vary with the changes in the prevailing exchange rates in the marketplace. If an investor measures its investment returns by reference to a currency other than Renminbi, an investment in the RMB Notes entails foreign exchange related risks, including possible significant changes in the value of Renminbi relative to the currency by reference to which an investor measures its investment returns. Depreciation of Renminbi against such currency could cause a decrease in the effective yield of the RMB Notes below their stated coupon rates and could result in a loss when the return on the RMB Notes is translated into such currency. Accordingly, the value of the investment made by a holder of the RMB Notes in that foreign currency will decline.

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

All payments to investors in respect of the RMB Notes will be made solely (i) for so long as the RMB Notes are represented by a temporary Global Note or a permanent Global Note (as defined in the Conditions) held with the common depositary, for Euroclear and Clearstream or with a sub-custodian for the CMU or any alternative clearing system by transfer to a Renminbi bank account maintained in Hong Kong, or (ii) for so long as the Notes are in definitive form, by transfer to a Renminbi bank account maintained in Hong Kong in accordance with the prevailing rules and regulations. The relevant Issuer cannot be required to make payment by any other means (including in any other currency or by transfer to a bank account in the PRC).

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

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

Investment in the RMB Notes is subject to interest rate risks

The value of Renminbi payments under RMB Notes may be susceptible to interest rate fluctuations occurring within and outside the PRC, including PRC Renminbi repo rates and/or the Shanghai inter-bank offered rate. 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.

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

TERMS AND CONDITIONS OF THE NOTES

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

The Notes are part of a Series (as defined below) of Notes issued by Bank of Communications Co., Ltd. Hong Kong Branch (the "Issuer") and are issued pursuant to an amended and restated agency agreement dated 8 January 2016 (as may be further amended, restated or supplemented as at the Issue Date, the "Agency Agreement") between the Issuer, Bank of Communications Co., Ltd. Hong Kong Branch as fiscal agent and the other agents named in it and with the benefit of a Deed of Covenant (as amended, restated or supplemented as at the Issue Date, the "Deed of Covenant") dated 22 November 2013 executed by the Issuer in relation to the Notes. The fiscal agent, the CMU lodging and paying agent, the other paying agents, the registrars, the transfer agents and the calculation agent(s) for the time being (if any) are referred to below respectively as the "Fiscal Agent", the "CMU Lodging and Paying Agent", the "Paying Agents" (which expression shall include the Fiscal Agent and the CMU Lodging and Paying Agent), the "Registrar", the "Transfer Agents" and the "Calculation Agent(s)". For the purposes of these terms and conditions (the "Conditions"), all references to the Fiscal Agent shall, with respect to a Series of Notes to be held in the CMU, be deemed to be a reference to the CMU Lodging and Paying Agent and all such references shall be construed accordingly. The Noteholders (as defined below), the holders of the interest coupons (the "Coupons") relating to interest bearing Notes in bearer form and, where applicable in the case of such Notes, talons for further Coupons (the "Talons") (the "Couponholders") and the holders of the receipts for the payment of instalments of principal (the "Receipts") relating to Notes in bearer form of which the principal is payable in instalments are deemed to have notice of all of the provisions of the Agency Agreement applicable to them.

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

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

1 Form, Denomination and Title

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

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

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

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

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

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

2 No Exchange of Notes and Transfers of Registered Notes

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

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

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

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

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

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

3 Covenants

Reporting Covenants: The Issuer undertakes to report or cause to be reported the relevant information in connection with each Tranche of Notes, to the National Development and Reform Commission of the PRC ("NDRC"), within 10 business days after the relevant Issue Date of such Tranche of Notes and in accordance with the Notice 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) promulgated by the NDRC effective from 14 September 2015.

4 Status

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

5 Interest and other Calculations

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

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

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

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

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

(A) ISDA Determination for Floating Rate Notes

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

(x) the Floating Rate Option is as specified hereon

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

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

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

(B) Screen Rate Determination for Floating Rate Notes

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

(1) the offered quotation; or

(2) the arithmetic mean of the offered quotations,

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

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

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

(z) if paragraph (y) above applies and the Calculation Agent determines that fewer than two Reference Banks are providing offered quotations, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) as communicated to (and at the request of) the Calculation Agent by the Reference Banks or any two or more of them, at which such banks were offered, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) or, if the Reference Rate is HIBOR or CNH HIBOR, at approximately 11.00 a.m. (Hong Kong time) on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market or, if the Reference Rate is HIBOR or CNH HIBOR, the Hong Kong inter-bank market, as the case may be, or, if fewer than two of the Reference Banks provide the Calculation Agent with such offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) or, if the Reference Rate is HIBOR or CNH HIBOR, at approximately 11.00 a.m. (Hong Kong time), on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Issuer suitable for such purpose) informs the Calculation Agent it is quoting to leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market or, if the Reference Rate is HIBOR or CNH HIBOR, the Hong Kong inter-bank market, as the case may be, provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin or Maximum or Minimum Rate of Interest is to be applied to the relevant Interest Accrual Period from that which applied to the last preceding Interest Accrual Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Accrual Period, in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Accrual Period).

(C) Benchmark Replacement

In addition, notwithstanding the provisions above in Condition 5(b), if the Issuer determines that a Benchmark Event has occurred in relation to the relevant Reference Rate specified in the relevant Pricing Supplement when any Rate of Interest (or the relevant component part thereof) remains to be determined by such Reference Rate, then the following provisions shall apply:

(i) the Issuer shall use all reasonable endeavours to appoint, as soon as reasonably practicable, an Independent Adviser to determine (acting in a reasonable manner), no later than five Business Days prior to the relevant Interest Determination Date relating to the next succeeding Interest Period (the "IA Determination Cut-off Date"), a Successor Rate or, alternatively, if there is no Successor Rate, an Alternative Reference Rate for the purposes of determining the Rate of Interest (or the relevant component part thereof) applicable to the Notes;

(ii) if the Issuer (acting in a reasonable manner) is unable to appoint an Independent Adviser, or the Independent Adviser appointed by it fails to determine a Successor Rate or an Alternative Reference Rate prior to the IA Determination Cut-off Date, the Issuer (acting in a reasonable manner) may determine a Successor Rate or, if there is no Successor Rate, an Alternative Reference Rate;

(iii) if a Successor Rate or, failing which, an Alternative Reference Rate (as applicable) is determined in accordance with the preceding provisions, such Successor Rate or, failing which, an Alternative Reference Rate (as applicable) shall be the Reference Rate for each of the future Interest Periods (subject to the subsequent operation of, and to adjustment as provided in, this Condition 5(b)(iii)(C); provided, however, that if sub-paragraph (ii) applies and the Issuer (acting in a reasonable manner) is unable to or does not determine a Successor Rate or an Alternative Reference Rate prior to the relevant Interest Determination Date, the Rate of Interest applicable to the next succeeding Interest Period shall be equal to the Rate of Interest last determined in relation to the Notes in respect of the preceding Interest Period (or alternatively, if there has not been a first Interest Payment Date, the rate of interest shall be the initial Rate of Interest) (subject, where applicable, to substituting the Margin, Maximum Rate of Interest or Minimum Rate Interest that applied to such preceding Interest Period for the Margin, Maximum Rate of Interest or Minimum Rate Interest that is to be applied to the relevant Interest Period); for the avoidance of doubt, the proviso in this sub-paragraph (iii) shall apply to the relevant Interest Period only and any subsequent Interest Periods are subject to the subsequent operation of, and to adjustment as provided in, this Condition 5(b)(iii)(C);

(iv) if the Independent Adviser or the Issuer (acting in a reasonable manner) determines a Successor Rate or, failing which, an Alternative Reference Rate (as applicable) in accordance with the above provisions, the Independent Adviser or the Issuer (acting in good faith and in a commercially reasonable manner) (as applicable), may also specify changes to these Conditions, including but not limited to the Day Count Fraction, Relevant Screen Page, Business Day Convention, business days, Interest Determination Date and/or the definition of Reference Rate applicable to the Notes, and the method for determining the fallback rate in relation to the Notes, if such changes are necessary to ensure the proper operation of such Successor Rate, Alternative Reference Rate and/ or Adjustment Spread (as applicable). If the Independent Adviser (in consultation with the Issuer) or the Issuer (acting in a reasonable manner) (as applicable), determines that an Adjustment Spread is required to be applied to the Successor Rate or the Alternative Reference Rate (as applicable) and determines the quantum of, or a formula or methodology for determining, such Adjustment Spread, then such Adjustment Spread shall be applied to the Successor Rate or the Alternative Reference Rate (as applicable). If the Independent Adviser or the Issuer (acting in a reasonable manner) (as applicable) is unable to determine the quantum of, or a formula or methodology for determining, such Adjustment Spread, then such Successor Rate or Alternative Reference Rate (as applicable) will apply without an Adjustment Spread. For the avoidance of doubt, the Fiscal Agent shall, at the direction and expense of the Issuer, effect such consequential amendments to the Agency Agreement and these Conditions as may be required in order to give effect to this Condition 5(b)(iii)(C).

Noteholder or Couponholder consent shall not be required in connection with effecting the Successor Rate or Alternative Reference Rate (as applicable) or such other changes, including for the execution of any documents or other steps by the Fiscal Agent (if required); and

(v) the Issuer shall promptly, following the determination of any Successor Rate or Alternative Reference Rate (as applicable), give notice thereof to the Fiscal Agent, Noteholders and Couponholders, which shall specify the effective date(s) for such Successor Rate or Alternative Reference Rate (as applicable) and any consequential changes made to these Conditions,

provided that the determination of any Successor Rate or Alternative Reference Rate, and any other related changes to the Notes, shall be made in accordance with applicable law.

In these Conditions:

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

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

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

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

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

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

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

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

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

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

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

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

provided that in the case of sub-paragraphs (2), (3) and (4) of this definition, the Benchmark Event shall occur on the date of the cessation of publication of such Reference Rate, the discontinuation of such Reference Rate, or the prohibition of use of such Reference Rate, as the case may be, and not the date of the relevant public statement;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(i) **Determination and Publication of Rates of Interest, Interest Amounts, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts and Instalment Amounts**: The Calculation Agent shall, as soon as practicable on such date as the Calculation Agent may be required to calculate any rate or amount, obtain any quotation or make any determination or calculation, determine such rate and calculate the Interest Amounts for the relevant Interest Accrual Period, calculate the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or Instalment Amount, obtain such quotation or make such determination or calculation, as the case may be, and cause the Rate of Interest and the Interest Amounts for each Interest Accrual Period and the relevant Interest Payment Date and, if required to be calculated, the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or any Instalment Amount to be notified to the Fiscal Agent, the Issuer, each of the Paying Agents, the Noteholders, any other Calculation Agent appointed in respect of the Notes that is to make a further calculation upon receipt of such information and, if the Notes are listed on a stock exchange and the rules of such exchange or other relevant authority so require, such exchange or other relevant authority as soon as possible after their determination but in no event later than (i) the commencement of the relevant Interest Period, if determined prior to such time, in the case of notification to such exchange of a Rate of Interest and Interest Amount, or (ii) in all other cases, the fourth Business Day after such determination. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to Condition 5(b)(ii), the Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If the Notes become due and payable under Condition 10, the accrued interest and the Rate of Interest payable in respect of the Notes shall nevertheless continue to be calculated as previously in accordance with this Condition but no publication of the Rate of Interest or the Interest Amount so calculated need be made. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties.

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

"Business Day" means:

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

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

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

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

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

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

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

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

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

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

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

where:

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

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

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

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

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

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

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

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

where:

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

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

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

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

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

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

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

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

where

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

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

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

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

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

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

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

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

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

(x) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and

(y) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year

where:

"Determination Period" means the period from and including a Determination

Date in any year to but excluding the next Determination Date.

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

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

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

"Interest Amount" means:

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

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

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

“Interest Determination Date” means, with respect to a Rate of Interest and Interest Accrual Period, the date specified as such hereon or, if none is so specified, (i) the first day of such Interest Accrual Period if the Specified Currency is Sterling or Hong Kong dollars or Renminbi other than where the Specified Currency is Renminbi and the Reference Rate is CNH HIBOR or (ii) the day falling two Business Days in London for the Specified Currency prior to the first day of such Interest Accrual Period if the Specified Currency is neither Sterling nor euro nor Hong Kong dollars nor Renminbi or (iii) the day falling two TARGET Business Days prior to the first day of such Interest Accrual Period if the Specified Currency is euro or (iv) the day falling two Business Days in Hong Kong prior to the first day of such Interest Accrual Period if the Specified Currency is Renminbi and the Reference Rate is CNH HIBOR.

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

“Interest Period Date” means each Interest Payment Date unless otherwise specified hereon.

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

“Rate of Interest” means the rate of interest payable from time to time in respect of this Note and that is either specified or calculated in accordance with the provisions hereon.

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

“Reference Rate” means the rate specified as such hereon.

“Relevant Screen Page” means such page, section, caption, column or other part of a particular information service as may be specified hereon (or any successor or replacement page, section, caption, column or other part of a particular information service).

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

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

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

6 Redemption, Purchase and Options

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

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

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

(b) **Early Redemption**:

(i) *Zero Coupon Notes*:

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

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

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

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

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

(c) **Redemption for Taxation Reasons**: The Notes may be redeemed at the option of the Issuer in whole, but not in part, on any Interest Payment Date (if this Note is either a Floating Rate Note or an Index Linked Interest Note) or, at any time, (if this Note is neither a Floating Rate Note nor an Index Linked Interest Note), on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable), at their Early Redemption Amount (as described in Condition 6(b) above) (together with interest accrued to the date fixed for redemption), if (i) the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 8 as a result of any change in, or amendment to, the laws or regulations of any of the Relevant Jurisdictions (as defined in Condition 8), or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Notes, and (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Notes then due. Prior to the publication of any notice of redemption pursuant to this Condition 6(c), the Issuer shall deliver to the Fiscal Agent a certificate signed by two Directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment.

(d) **Redemption at the Option of the Issuer**: If Call Option is specified hereon, the Issuer may, on giving not less than 30 nor more than 60 days' irrevocable notice to the Noteholders (or such other notice period as may be specified hereon) redeem, all or, if so provided, some, of the Notes on any Optional Redemption Date. Any such redemption of Notes shall be at their Optional Redemption Amount specified hereon (which may be the Early Redemption Amount (as described in Condition 6(b) above)), together with interest accrued to the date fixed for redemption. Any such redemption or exercise must relate to Notes of a nominal amount at least equal to the Minimum Redemption Amount to be redeemed specified hereon and no greater than the Maximum Redemption Amount to be redeemed specified hereon.

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

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

(e) **Redemption at the Option of Noteholders**: If Put Option is specified hereon, the Issuer shall, at the option of the holder of any such Note, upon the holder of such Note giving not less than 30 nor more than 60 days' notice to the Issuer (or such other notice period as may be specified hereon) redeem such Note on the Optional Redemption Date(s) at its Optional Redemption Amount specified hereon (which may be the Early Redemption Amount (as described in Condition 6(b) above)), together with interest accrued to the date fixed for redemption.

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

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

(g) **Purchases**: The Issuer and its Subsidiaries (as defined in Condition 10) may at any time purchase Notes (provided that all unmatured Receipts and Coupons and unexchanged Talons relating thereto are attached thereto or surrendered therewith) in the open market or otherwise at any price.

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

7 Payments and Talons

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

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

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

(iii) In this Condition 7(a), "Bank" means a bank in the principal financial centre for such currency or, in the case of euro, in a city in which banks have access to the TARGET System.

(b) **Registered Notes**:

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

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

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

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

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

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

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

(e) **Appointment of Agents**: The Fiscal Agent, the CMU Lodging and Paying Agent, the Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent initially appointed by the Issuer and their respective specified offices are listed below. The Fiscal Agent, the CMU Lodging and Paying Agent, the Paying Agents, the Registrars, Transfer Agents and the Calculation Agent(s) act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any Noteholder or Couponholder. The Issuer reserves the right at any time to vary or terminate the appointment of the Fiscal Agent, the CMU Lodging and Paying Agent, any other Paying Agent, the Registrar, any Transfer Agent or any Calculation Agent and to appoint additional or other Paying Agents or Transfer Agents, provided that the Issuer shall at all times maintain (i) a Fiscal Agent, (ii) a Registrar in relation to Registered Notes, (iii) a Transfer Agent in relation to Registered Notes, (iv) a CMU Lodging and Paying Agent in relation to Notes accepted for clearance through the CMU, (v) one or more Calculation Agent(s) where the Conditions so require and (vi) such other agents as may be required by any other stock exchange on which the Notes may be listed.

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

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

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

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

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

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

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

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

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

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

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

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

(ii) (in the case of a payment in euro) which is a TARGET Business Day; or

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

8 Taxation

All payments of principal and interest by or on behalf of the Issuer in respect of the Notes, the Receipts and the Coupons shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within any of the Relevant Jurisdictions, unless such withholding or deduction is required by law. In that event, the Issuer shall pay such additional amounts as shall result in receipt by the Noteholders and the Couponholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable with respect to any Note, Receipt or Coupon:

(a) held by or on behalf of a holder which is liable to such taxes, duties, assessments or governmental charges in respect of such Note, Receipt 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, Receipt or Coupon; or,

(b) where (in the case of a payment of principal or interest on redemption) the relevant Certificate is surrendered for payment more than 30 days after the Relevant Date except to the extent that the relevant holder would have been entitled to such additional amounts if it had surrendered the relevant Certificate on the last day of such period of 30 days; or

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

As used in these Conditions:

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

(b) "Relevant Jurisdiction" means Hong Kong, the PRC (as defined in Condition 10) or any political subdivision or any authority thereof or therein having power to tax or any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax to which the Issuer becomes subject in respect of payments made by it of principal and interest on the Notes.

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

9 Prescription

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

10 Events of Default

If any of the following events ("Events of Default") occurs and is continuing, the holder of any Note may give written notice to the Fiscal Agent at its specified office that such Note is immediately repayable, whereupon the Early Redemption Amount of such Note together (if applicable) with accrued interest to the date of payment shall become immediately due and payable:

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

(b) **Breach of Other Obligations**: the Issuer does not perform or comply with any one or more of its other obligations in the Notes, the Deed of Covenant or the Agency Agreement which default continues for a period of 45 days after notice of such default shall have been given to the Fiscal Agent at its specified office by any Noteholder; or

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

(d) **Insolvency**: the Issuer or any of its 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 or any of its Material Subsidiaries; or

(e) **Winding-up**: an order is made or an effective resolution passed for the winding-up or dissolution or administration of the Issuer or any of its Material Subsidiaries, or the Issuer 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 (as defined in the Agency Agreement) of the Noteholders or (ii) in the case of a Material Subsidiary, whereby the undertaking and assets of the Material Subsidiary are transferred to or otherwise vested in the Issuer or another of its Material Subsidiaries; or

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

In these Conditions:

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

"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;

"Public External Indebtedness" means any indebtedness of the Issuer or any of its Subsidiaries, or any guarantee or indemnity by such entity of indebtedness, for money borrowed which, (i) is in the form of or represented by any bond, note, debenture, debenture stock, loan stock, certificate or other instrument which is, or is capable of being listed, quoted or traded on any stock exchange or in any securities market (including, without limitation, any over-the-counter market) outside the People's Republic of China (for the purposes hereof not including the Hong Kong and Macau Special Administration Regions or Taiwan) ("PRC") (without regard, however, to whether or not such instruments are sold through public offerings or private placements); and (ii) has an original maturity of more than 365 days, which, for the avoidance of doubt, shall exclude any asset-backed securities offered or issued by the Issuer or any of its Subsidiaries to investors where payments made under such securities are serviced primarily by the cash flows of certain assets of the Issuer; and

"Subsidiary" means in relation to any Person (the "first Person"), any other Person whose financial statements at any time are required by law or in accordance with generally accepted accounting principles to be fully consolidated with those of the first Person.

11 Meeting of Noteholders and Modifications

(a) **Meetings of Noteholders**: The Agency Agreement contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Agency Agreement) of a modification of any of these Conditions. Such a meeting may be convened by Noteholders holding not less than 10 per cent. in nominal amount of the Notes for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution shall be two or more persons holding or representing a clear majority in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting two or more persons being or representing Noteholders whatever the nominal amount of the Notes held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to amend the dates of maturity or redemption of the Notes, any Instalment Date or any date for payment of interest or Interest Amounts on the Notes, (ii) to reduce or cancel the nominal amount of, or any Instalment Amount of, or any premium payable on redemption of, the Notes, (iii) to reduce the rate or rates of interest in respect of the Notes or to vary the method or basis of calculating the rate or rates or amount of interest or the basis for calculating any Interest Amount in respect of the Notes, (iv) if a Minimum Rate of Interest and/or a Maximum Rate of Interest, Instalment Amount or Redemption Amount is shown hereon, to reduce any such Minimum Rate of Interest and/or Maximum Rate of Interest, (v) to vary any method of, or basis for, calculating the Final Redemption Amount, the Early Redemption Amount or the Optional Redemption Amount, including the method of calculating the Amortised Face Amount, or (vi) to vary the currency or currencies of payment or denomination of the Notes, in which case the necessary quorum shall be two or more persons holding or representing not less than three-quarters or at any adjourned meeting not less than one quarter of the nominal amount of the Notes for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Noteholders (whether or not they were present at the meeting at which such resolution was passed) and on all Couponholders.

The Agency Agreement provides that a resolution in writing signed by or on behalf of the Noteholders of not less than 90 per cent. in nominal amount of the Notes outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

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

(b) **Modification of Agency Agreement**: The 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.

12 Replacement of Notes, Certificates, Receipts, Coupons and Talons

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

13 Further Issues

The Issuer may from time to time without the consent of the Noteholders or Couponholders create and issue further notes having the same terms and conditions as the Notes or the same in all respects save for the principal amount, the Issue Date and the first payment of interest thereon and so that the same shall be consolidated and form a single series with such Notes, and references in these Conditions to "Notes" shall be construed accordingly.

14 Notices

Notices to the holders of Registered Notes shall be mailed to them at their respective addresses in the Register and deemed to have been given on the fourth weekday (being a day other than a Saturday or a Sunday) after the date of mailing. Notices to the holders of Bearer Notes shall be valid if published in a daily newspaper of general circulation in Hong Kong. So long as the Notes are listed on The Stock Exchange of Hong Kong Limited and the rules of that Exchange so require, notices to holders of the Notes shall also be published in a daily newspaper with general circulation in Hong Kong (which is expected to be the South China Morning Post in

Hong Kong). If any such publication is not practicable, notice shall be validly given if published in another leading daily English language newspaper with general circulation in Asia. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the date of the first publication as provided above.

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

15 Contracts (Rights of Third Parties) Act 1999

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

16 Governing Law and Jurisdiction

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

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

(c) **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.

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE REPRESENTED BY THE GLOBAL NOTES OR THE GLOBAL CERTIFICATE

Initial Issue of Notes

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

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

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

Relationship of Accountholders with Clearing Systems

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

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

Exchange

Temporary Global Notes

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

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

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

The CMU may require that any such exchange for a permanent Global Note is made in whole and not in part and in such event, no such exchange will be effected until all relevant account holders (as set out in a CMU Instrument Position Report (as defined in the rules of the CMU) or any other relevant notification supplied to the CMU Lodging and Paying Agent by the CMU) have so certified.

Permanent Global Notes

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

(i) if the permanent Global Note is held on behalf of Euroclear or Clearstream or the CMU or any other clearing system (an "Alternative Clearing System") and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or in fact does so or

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

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

Global Certificates

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

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

(i) if the relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so;

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

(iii) with the prior consent of the Issuer,

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

Partial Exchange of Permanent Global Notes

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

Delivery of Notes

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

Exchange Date

"Exchange Date" means (i) in relation to an exchange of a temporary Global Note to a permanent Global Note, the day falling after the expiry of 40 days after its issue date; or (ii) in relation to an exchange of a permanent Global Note to a Definitive Note, a day falling not less than 60 days or in the case of exchange following failure to pay principal in respect of any Notes when due 30 days, after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Fiscal Agent is located and in the cities in which the relevant clearing systems are located.

Amendment to Conditions

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

Payments

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

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

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

Prescription

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

Meetings

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

Cancellation

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

Purchase

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

The Option of the Issuer

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

Noteholders' Options

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

Notices

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

Partly Paid Notes

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

FORM OF PRICING SUPPLEMENT

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

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

[**MiFID II product governance / Professional investors and ECPs only target market** — Solely for the purposes of [the/each] manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in [Directive 2014/65/EU (as amended, "MiFID II")]/[MiFID II]; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. 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.] / [*appropriate target market legend to be included*]

[**Singapore SFA Product Classification** — In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the "SFA") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "CMP Regulations 2018"), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are [prescribed capital markets products] / [capital markets products other than prescribed capital markets products] (as defined in the CMP Regulations 2018) and [are] [Excluded] / [Specified] Investment Products (as defined in MAS Notice SFA 04-N 12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendation on Investment Products).][1]

Pricing Supplement dated [●]
Bank of Communications Co., Ltd. [Hong Kong/[●]] Branch

Issue of [*Aggregate Nominal Amount of Tranche*] [*Title of Notes*]
under the U.S.$12,000,000,000 Medium Term Note Programme

This document constitutes the Pricing Supplement relating to the issue of Notes described herein. Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Offering Circular dated [*original date*] [and the supplemental Offering Circular dated [*date*]].

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

This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with such Offering Circular [as so supplemented]. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of the Offering Circular[, the supplementary Offering Circular dated [*date*]] and this Pricing Supplement.

[*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 Conditions (the "Conditions") set forth in the Offering Circular dated [*original date*]. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with the Offering Circular dated [*current date*] [and the supplemental Offering Circular dated [*date*]], save in respect of the Conditions which are extracted from the Offering Circular dated [*original date*] and are attached hereto. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of the Offering Circular[, the supplementary Offering Circular dated [*date*]] and this Pricing Supplement.]

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

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

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

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

[*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 directions for completing the Pricing Supplement*.]

1	Issuer:	Bank of Communications Co., Ltd. [Hong Kong/[●]] Branch

2	[(i)]	Series Number:	[●]
	[(ii)	Tranche Number:]	[●]
	[(iii)	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 27 below, which is expected to occur on or about [*date*]][Not Applicable](1)
3		Specified Currency or Currencies:	[●]
4		Aggregate Nominal Amount:	[●]
	[(i)]	Series:	[●]
	[(ii)	Tranche:	[●]]
5	[(i)]	Issue Price:	[●] per cent. of the Aggregate Nominal Amount [plus accrued interest from [*insert date*] (*in the case of fungible issues only, if applicable*)]
	[(ii)	Net proceeds:	[●] (*Required only for listed issues*)]
6		Use of Proceeds	[●] (*If applicable, include relevant disclosure if proceeds are used to repay indebtedness of relevant Dealer(s)*)
7	(i)	Specified Denominations:	[●](2)
	(ii)	Calculation Amount(5):	[●]
8	(i)	Issue Date:	[●]
	(ii)	Interest Commencement Date:	[*Specify*/Issue date/Not Applicable]
9		Maturity Date:	[specify date (*for Fixed Rate Notes*) or (*for Floating Rate Notes) Interest Payment Date falling in or nearest to the relevant month and year*](3)
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] [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:		[Put] [Call] [(further particulars specified below)]
14	(i)	Status of the Notes:	Senior Notes
	(ii)	Regulatory approval for issuance of Notes obtained(6):	[[●]/None required](6)
15	Listing:		[●]/Other (*specify*)/None]
16	Method of distribution:		[Syndicated/Non-syndicated]
17	Private Bank Rebate/Commission:		[Applicable/Not Applicable]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

18	Fixed Rate Note Provisions		[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(i)	Rate [(s)] of Interest:	[●] per cent. per annum [payable [annually/semi-annually/quarterly/monthly] in arrear]
	(ii)	Interest Payment Date(s):	[●] in each year(4) [*adjusted in accordance with [specify Business Day Convention and any applicable Business Centre(s) for the definition of "Business Day"]/not adjusted*]
	(iii)	Fixed Coupon Amount[(s)]:	[●] per Calculation Amount(5)
	(iv)	Broken Amount:	[●] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [●] [*Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Coupon Amount[(s)] and the Interest Payment Date(s) to which they relate*]
	(v)	Day Count Fraction (Condition 5(j)):	[30/360/Actual/Actual (ICMA/ISDA)/Other] (*Day count fraction should be Actual/Actual-ICMA for all fixed rate issues other than those denominated in US dollars or Hong Kong dollars, unless the client requests otherwise*)
	(vi)	Determination Date(s) (Condition 5(j)):	[●] in each year. [Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon](7)

	(vii)	Other terms relating to the method of calculating interest for Fixed Rate Notes:	[Not Applicable/*give details*]
19		Floating Rate Note Provisions	[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i)	Interest Period(s):	[●]
	(ii)	Specified Interest Payment Dates:	[●]
	(iii)	Interest Period Date(s):	[Not Applicable/specify dates] (*Not applicable unless different from Interest Payment Date*)
	(iv)	Business Day Convention:	[Floating Rate Business Day Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other (*give details*)]
	(v)	Business Centre(s) (Condition 5(j)):	[●]
	(vi)	Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination/ other (*give details*)]
	(vii)	Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Calculation Agent):	[●]
	(viii)	Screen Rate Determination (Condition 5(b)(iii)(B)):	
		— Reference Rate:	[●]
		— Interest Determination Date:	[*[●] [TARGET] Business Days in [specify city] for [specify currency] prior to [the first day in each Interest Accrual Period/each Interest Payment Date]*]
		— Relevant Screen Page:	[●]
	(ix)	ISDA Determination (Condition 5(b)(iii)(A)):	
		— Floating Rate Option:	[●]
		— Designated Maturity:	[●]
		— Reset Date:	[●]
		— ISDA Definitions: (if different from those set out in the Conditions)	[2000/2006]

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

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

PROVISIONS RELATING TO REDEMPTION

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

24	Put Option	[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i) Optional Redemption Date(s):	[●]
	(ii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s):	[●] per Calculation Amount
	(iii) Notice period:	[●]
25	Final Redemption Amount of each Note	[●] per Calculation Amount
26	Early Redemption Amount	
	(i) Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons (Condition 6(c)) or Event of Default (Condition 10) and/or the method of calculating the same (if required or if different from that set out in the Conditions):	[●]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

27	Form of Notes:	[Bearer Notes/Registered Notes/Dematerialised Registered Notes] [*Delete as appropriate*] [temporary Global Note exchangeable for a permanent Global Note which is exchangeable for Definitive Notes in the limited circumstances specified in the permanent Global Note] [temporary Global Note exchangeable for Definitive Notes on [●] days' notice] [permanent Global Note/Certificate exchangeable for Definitive Notes/Certificates on [●] days' notice/at any time/in the limited circumstances specified in the permanent Global Note/Certificate](8)
28	Financial Centre(s) (Condition 7(h)) or other special provisions relating to payment dates:	[Not Applicable/*Give details. Note that this item relates to the date and place of payment, and not interest period end dates, to which item 17(ii), 18(iv) and 20(vii) relate*]
29	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*]

30	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*]
31	Details relating to Instalment Notes:	[Not Applicable/*give details*]
	(i) Instalment Amount(s):	[●]
	(ii) Instalment Date(s):	[●]
	(iii) Minimum Instalment Amount:	[●]
	(iv) Maximum Instalment Amount:	[●]
32	Redenomination, renominalisation and reconventioning provisions:	[Not Applicable/The provisions annexed to this Pricing Supplement apply]
33	Consolidation provisions:	[Not Applicable/The provisions annexed to this Pricing Supplement apply]
34	Other terms or special conditions:	[Not Applicable/*give details*](9)

[The definition of the "Relevant Jurisdiction" as set out in Condition 8 shall be deemed to be deleted in its entirety and replaced with the following:

""Relevant Jurisdiction" means [jurisdiction where the relevant branch is located], the PRC (as defined in Condition 10) or any political subdivision or any authority thereof or therein having power to tax or any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax to which the Issuer becomes subject in respect of payments made by it of principal and interest on the Notes."](10)

[Condition 1 (*Form, Denomination and Title*) and Condition 2 (*No Exchange of Notes and Transfers of Registered Notes*) — no definitive Certificates shall be issued, and all references to "Noteholders" shall mean the accountholders at [the relevant clearing system] as from time to time certified by [the relevant clearing system] (the "[the relevant clearing system] Accountholders").

Condition 7 (*Payments and Talons*) — all payments shall be made to [the relevant clearing system] Accountholders.

		Condition 11 (*Meeting of Noteholders and Modifications*) — the persons entitled to attend and vote at a meeting shall be [the relevant clearing system] Accountholders. Condition 14 (*Notices*) — notices shall be given to [the relevant clearing system] for communications purposes in accordance with rules and procedures of [the relevant clearing system] for the time being. All Conditions requiring presentation or surrender of Certificate are not applicable. A deed poll dated the Issue Date has been executed by the Issuer and delivered to the Fiscal Agent.][(11)]

DISTRIBUTION

35	(i)If syndicated, names of Managers:	[Not Applicable/*give names*]
	(ii)Stabilisation Manager (if any):	[Not Applicable/*give name*]
36	If non-syndicated, name of Dealer:	[Not Applicable/*give name*]
37	U.S. Selling Restrictions:	[Reg. S Category 1/2; TEFRA D/TEFRA C/TEFRA Not Applicable]
38	Additional selling restrictions:	[Not Applicable/*give details*]
39	Prohibition of Sales to EEA and UK Retail Investors:	[Applicable/Not Applicable] (*If the Notes clearly do not constitute "packaged" products, "Not Applicable" should be specified. If Notes may constitute "packaged" products and no KID will be prepared, "Applicable" should be specified.*)

OPERATIONAL INFORMATION

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

GENERAL

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

[LISTING APPLICATION

This Pricing Supplement comprises the final terms required to list the issue of Notes described herein pursuant to the U.S.$12,000,000,000 Medium Term Note Programme of Bank of Communications Co., Ltd. Hong Kong Branch.]

[STABILISATION

In connection with the issue of any Tranche of Notes, one or more of the Dealers named as Stabilisation Manager (or persons acting on behalf of any Stabilisation Manager(s)) in this Pricing Supplement may, to the extent permitted by applicable laws and directives, over-allot and effect transactions with a view to supporting the market price of Notes of the Series of which such Tranche forms part 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 regulations.]

[MATERIAL ADVERSE CHANGE STATEMENT

[Except as disclosed in this document, there/There][(12)] has been no significant change in the financial or trading position of the Issuer or of the Group since [***insert date of last audited accounts or interim accounts (if later)***] and no material adverse change in the financial position or prospects of the Issuer or of the Group since [***insert date of last published annual accounts***].]

RESPONSIBILITY

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

Signed on behalf of the Issuer:

By: ________________________

Duly authorised

Notes:

(1) For a tap of a Reg S Cat 2 issue and where notes are in registered form or go straight into permanent global form (TEFRA C) (such that there is not a TEFRA D temporary global note), consider whether a temporary ISIN may still be necessary to comply with the distribution compliance period. If so, the following wording may be considered "The Notes will be consolidated and form a single Series with the [identify earlier Tranches] (the "Original Notes") on the date that is 40 days after the Issue Date (the "Exchange Date"). Until the Exchange Date the Notes will have a temporary ISIN and temporary Common Code ("Temporary ISIN" and "Temporary Common Code", respectively). After the Exchange Date the Notes will have the same ISIN and Common Code ("Permanent ISIN" and "Permanent Common Code" respectively) as the Original Notes".

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

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

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

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

(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, CNY0.05 in the case of Renminbi denominated Fixed Rate Notes or to the nearest HK$0.01, HK$0.005 in the case of Hong Kong dollar denominated Fixed Rate Notes, being rounded upwards."

(6) State either the date of the Pre-Issuance NDRC Registration or that the annual quota from NDRC has been obtained.

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

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

(9) If full terms and conditions are to be used, please add the following here:

"The full text of the Conditions which apply to the Notes [and which will be endorsed on the Notes in definitive form] are set out in [the Annex hereto], which Conditions replace in their entirety those appearing in the Offering Circular for the purposes of these Notes and such Conditions will prevail over any other provision to the contrary."

The first set of bracketed words is to be deleted where there is a permanent global Note instead of Notes in definitive form. The full Conditions should be attached to and form part of the Pricing Supplement.

(10) Required only for an Issuer other than Bank of Communications Co., Ltd. Hong Kong Branch.

(11) Required only for dematerialised Registered Notes.

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

CAPITALISATION AND INDEBTEDNESS

The following table sets forth the Bank's unaudited capitalisation and indebtedness as at 30 June 2020 and as adjusted to give effect to the issuance of Bonds and the use of proceeds discussed in "*Use of Proceeds*". For additional information, see the Bank's interim financial statements as at and for the six months ended 30 June 2020 and notes thereto included in the F-pages of this Offering Circular.

	As at 30 June 2020	
	(RMB in million)	*(U.S.$ in million)*
	(unaudited)	
Debt		
Debt securities issued[1]	459,405	65,025
Other borrowings[2]	8,477,626	1,199,930
Total debt	8,937,031	1,264,955
Equity		
Share capital	74,263	10,511
Other Instruments	99,870	14,136
Capital surplus	113,663	16,088
Other reserves	339,109	47,998
Retained earnings	175,638	24,860
Non-controlling interests	11,589	1,640
Total equity	814,132	115,233
Total capitalisation[3]	9,751,163	1,380,188

Notes:

(1) On 20 July 2020, the Bank issued U.S.$650 million floating rate notes due 2023 and U.S.$400 million floating rate notes due 2025 under its U.S.$12 billion medium term note programme;

On 10 September 2020, Bank of Communications Co., Ltd. Hong Kong Branch issued U.S.$350 million floating rate notes due 2023 and U.S.$800 million 1.2 per cent. notes due 2025 under its U.S.$12 billion medium term note programme;

On 7 August 2020, the Bank issued RMB50 billion 3.18 per cent. onshore bonds due 2023;

On 25 September 2020, the Bank issued RMB30 billion undated capital bonds in the national inter-bank bond market; and

On 11 November 2020, the Bank bookbuilt RMB40 billion 3.5 per cent. onshore bonds due 2023 and the expected closing date will be 13 November 2020.

(2) Other borrowings include amounts due to banks and financial institutions and amounts due to customers.

(3) Total capitalisation equals the sum of total debt and total equity.

Unless otherwise disclosed in this Offering Circular and issuance of the U.S.$2,800,000,000 undated capital bonds in the offshore market on 18 November 2020, there has not been any material change in the capitalisation of the Bank since 30 June 2020.

USE OF PROCEEDS

The net proceeds of any Notes issued under the Programme shall be used for the relevant Issuer's working capital and general corporate purposes.

DESCRIPTION OF THE HONG KONG BRANCH

Business Activities

Established in 1934, the Hong Kong branch of the Bank is the largest overseas branch of the Bank. As at 30 June 2020, it had 45 outlets in Hong Kong.

The Hong Kong branch of the Bank has placed an increasing emphasis on serving personal banking customers. For corporate finance operations, it targets, among others, listed companies and large PRC state-owned enterprises. As at 30 June 2020, its key/core customers in terms of amount of loans were all listed companies and their affiliates, large state-owned enterprises or customers of relatively low risk. In addition, it also actively participates in the syndicated loan market. Apart from generating interest income, it continues to focus on generating fee income. It provides a variety of fee-based products and services.

On 14 July 2017, the Bank announced to invest in the establishment of Bank of Communications (Hong Kong) for a total amount of HK$7.9 billion, which amounted to 100 per cent. of the share capital of Bank of Communication (Hong Kong). The establishment of Bank of Communications (Hong Kong) was approved by the China Banking Regulatory Commission on 20 January 2014. Bank of Communications (Hong Kong) also obtained a full banking licence under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (the "Ordinance") from the Hong Kong Monetary Authority on 29 September 2015 to operate banking business and specialised in retail banking business and private banking business. On 29 January 2018, the Bank further announced the existing activities, assets and liabilities which constituted the retail and private banking businesses of the Hong Kong branch of the Bank on that day was transferred to the Bank of Communications (Hong Kong) in accordance with section 4(1) of the Bank of Communications (Hong Kong) Limited (Merger) Ordinance (Chapter 1182 of the Laws of Hong Kong).

Bank of Communications (Hong Kong) was a wholly-owned subsidiary of the Bank through establishing a complete corporate governance structure in accordance with the Ordinance and other relevant regulatory requirements. The establishment of Bank of Communications (Hong Kong) aimed to expand and intensify the Bank's retail and private banking business by building on its strong foundation in Hong Kong. The establishment demonstrated the Bank's long-term commitment to Hong Kong customers, employees and business partners and signifies a clearer and more focused separation in the serving of different customer groups. The Hong Kong branch of the Bank continues to exist and hold a full banking licence under the Ordinance to operate its banking business as a licensed bank in Hong Kong. As at 30 June 2020, the Hong Kong branch of the Bank had 966 employees and Bank of Communications (Hong Kong) had 842 employees.

Hong Kong Banking Industry Regulatory Regime

The banking industry in Hong Kong is regulated under the provisions of the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (the "Banking Ordinance") and subject to the powers and functions ascribed by the Banking Ordinance to the HKMA. The Banking Ordinance provides that only banks which have been granted a banking license ("license") by the HKMA may carry on banking business (as defined in the Banking Ordinance) in Hong Kong and contains controls and restrictions on such banks ("licensed banks").

The provisions of the Banking Ordinance are implemented by the HKMA, the principal function of which is to promote the general stability and effectiveness of the banking system, especially in the area of supervising compliance with the provisions of the Banking Ordinance. The HKMA supervises licensed banks through, *inter alia*, a regular information gathering process, the main features of which are as follows:

- each licensed bank must submit a monthly return to the HKMA setting out the assets and liabilities of its principal place of business in Hong Kong and all local branches and a further comprehensive quarterly return relating to its principal place of business in Hong Kong and all local branches, unless the HKMA permits returns to be made at less frequent intervals;

- the HKMA may order a licensed bank, any of its subsidiaries, its holding company or any subsidiaries of its holding company to provide such further information (either specifically or periodically) as it may reasonably require for the exercise of its functions under the Banking Ordinance or as it may consider necessary in the interests of the depositors or potential depositors of the licensed bank concerned. Such information shall be submitted within such period and in such manner as the HKMA may require. The HKMA may also require a report by a licensed bank's auditors (approved by the HKMA for the purpose of preparing the report) confirming whether or not such information or return is correctly compiled in all material respects;

- licensed banks may be required to provide information to the HKMA regarding companies in which they have an aggregate of 20 per cent. or more direct or indirect shareholding or with which they have common directors or managers (as defined in the Banking Ordinance), the same controller (as defined in the Banking Ordinance), with common features in their names or a concert party arrangement to promote the licensed bank's business;

- licensed banks are obliged to report to the HKMA immediately of their likelihood of becoming unable to meet their obligations;

- the HKMA may direct a licensed bank to appoint an auditor to report to the HKMA on the state of affairs and/or profit and loss of the licensed bank or the adequacy of the systems of control of the licensed bank or other matters as the HKMA may reasonably require; and

- the HKMA may, at any time, with or without prior notice, examine the books, accounts and transactions of any licensed bank, and in the case of a licensed bank incorporated in Hong Kong, any local branch, overseas branch, overseas representative office or subsidiary, whether local or overseas, of such licensed bank. Such inspections are carried out by the HKMA on a regular basis.

DESCRIPTION OF THE BANK

OVERVIEW

Founded in 1908, the Bank is one of the note-issuing banks with the longest history in modern China. In 1986, the State Council of the PRC decided to reorganise the Bank. The Bank reopened after reorganisation on 1 April 1987. It is the first nationwide state-owned joint-stock commercial bank in China, with the head office located in Shanghai. The Bank made its first public offering of its H shares and listing on the Hong Kong Stock Exchange in June 2005, and its first public offering of its A shares and listing on the Shanghai Stock Exchange in May 2007. The Bank was the sixth largest commercial bank in the PRC based on total assets as at 30 June 2020. The Group was ranked in Fortune 500 for twelve consecutive years, and ranked No. 162 in terms of operating income. The Group's Tier-1 capital ranked No.11 among the global Top 1000 banks rated by *The Banker*.

Substantially all of the Bank's operations are located in the PRC and the Bank is headquartered in Shanghai. As at 30 June 2020, the Group had 3,025 domestic branches, including 37 provincial branches and 37 branches directly managed by its head office in 242 cities nationwide, most of which are concentrated in the Yangtze River Delta, Bohai Rim Economic Zone and Pearl River Delta, as well as large cities in other areas. Through this network and other distribution channels, the Group provides a broad range of financial products and services to its corporate and personal finance customers. As at 30 June 2020, in addition to its PRC operations, the Bank has branches or subsidiaries which are located in Hong Kong, New York, Tokyo, Singapore, Seoul, Frankfurt, Macau, Ho Chi Minh City, London, Sydney, San Francisco, Taipei, Brisbane, Luxembourg, Paris, Rome, Brazil, Melbourne and Prague, and its representative office in Toronto commenced operations in November 2014.

The Group's principal lines of business include corporate banking, personal banking and inter-bank and financial market businesses. The Group' corporate banking businesses include various financial products and services for enterprises and government agencies, such as deposits and loans, supply chain finance, cash management, international settlement and trade finance, investment banking, asset custody, wealth management and all kinds of intermediary businesses. Personal banking businesses include services such as deposits and loans, wealth management, bank cards, private banking and all kinds of intermediary businesses for individual customers. Inter-bank and financial market businesses include cooperation with customers in the markets such as markets of interest rates, exchange rates, commodities and comprehensive services such as investment and financing, transactions, agency, settlement and liquidation. Within its primary business lines, the Group also involves businesses in fund, trust, financial leasing, insurance, overseas securities, debt-to-equity conversion and asset management through its subsidiaries, and the Group's strategy is to become "build the first tier bank with wealth management characteristics and global competitive capabilities in the world". The Group has enhanced its strategic partnership and will continue to focus on strengthening its cooperation with HSBC, including in key strategic areas such as technical cooperation and exchange, treasury operations, credit card operations and its international and corporate finance business.

For the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2019 and 2020, the Group's profit before tax were RMB83,265 million, RMB86,067 million, RMB88,200 million, RMB48,959 million and RMB39,958 million, respectively. As at 31 December 2017, 2018 and 2019 and 30 June 2020, the Group had total assets of RMB9,038,254 million, RMB9,531,171 million, RMB9,905,600 million and RMB10,669,932 million, respectively, gross amount of loans and advances to customers before allowance for impairment of RMB4,579,256 million, RMB4,854,228 million, RMB5,304,275 million and RMB5,729,513 million, respectively, total amounts due to customers of RMB5,545,366 million, RMB5,793,324 million, RMB6,072,908 million and RMB6,560,867 million, respectively, and equity attributable to shareholders of the Group of RMB671,143 million, RMB698,405 million, RMB793,247 million and RMB802,543 million, respectively. As at 31 December 2017, 2018 and 2019 and 30 June 2020, the Group's impaired loan ratios were 1.50 per cent., 1.49 per cent., 1.47 per cent. and 1.68 per cent., respectively. As at 31 December 2017, 2018 and 2019 and 30 June 2020, the Group's provision coverage of impaired loans was 154.73 per cent., 173.13 per cent., 171.77 per cent. and 148.73 per cent., respectively.

RECENT DEVELOPMENTS

Proposed Issuance of Tier-2 Capital Bonds

On 26 November 2020, the Board's temporary meeting passed resolutions to approve the proposal in relation to the issuance of tier-2 capital bonds. The Bank intends to issue no more than RMB140 billion or equivalent foreign currencies in the domestic and overseas markets. The proposed issuance of tier-2 capital bonds is subject to the approval of the extraordinary general meeting of the Bank and further regulatory approvals.

Proposed Investment in the Establishment of Tsinghua and BOCOM Technology and Innovation (Shanghai) Fund (清華交銀科創(上海)基金)

On 26 November 2020, the Board's temporary meeting passed resolutions to approve the investment of RMB1.5 billion into setting up Tsinghua and BOCOM Technology and Innovation (Shanghai) investment fund (清華交銀科創(上海)基金) (the "**Tsinghua and BOCOM Technology and Innovation (Shanghai) Fund**"). Two subsidiaries of the Bank, namely, BoCoM Investment and BoCom International Trust would contribute RMB1.1 billion and RMB0.4 billion, respectively, funding by instalments. The Bank's senior management was authorised to handle the relevant matters in relation to this investment.

Opening of Johannesburg Branch of the Bank

The Bank has officially opened up its Johannesburg Branch in Johannesburg, Republic of South Africa on local time 20 November 2020. As the Bank's first branch in African region, the Johannesburg Branch will adhere to the corporate mission of "creating shared value" of the Bank and provide more comprehensive, convenient and high-quality financial services to customers in both countries. As at the date of this Offering Circular, the Bank has set up 23 overseas banking institutions and 69 overseas business outlets in 18 countries and regions around the world. As at 30 September 2020, the Bank's assets of overseas banking institutions exceeded RMB1.3 trillion, accounting for more than 12 per cent. of the Group's total assets.

Highlights of third quarter 2020 results

The 2020 Third Quarter Financial Information was published on 30 October 2020 on the website of the Hong Kong Stock Exchange. As at 30 September 2020, the total assets of the Group increased by 8.98 per cent. over the end of the previous year to RMB10,795.57 billion. The total liabilities increased by 9.38 per cent. over the end of the previous year to RMB9,958.89 billion. Shareholders' equity (attributable to shareholders of the Bank) increased by 4.02 per cent. over the end of the previous year to RMB825.11 billion. The impaired loan ratio slightly decreased 0.01 per cent. to 1.67 per cent. as compared to the end of June 2020. The provision coverage of impaired loans increased by 2.08 per cent. to 150.81 per cent. as compared to the end of June 2020. The total amounts due to customers increased by 8.93 per cent. over the end of the previous year to RMB6,541.59 billion. The loans and advances to customers increased by 9.66 per cent. over the end of the previous year to RMB5,816.70 billion. The loans and advances to customers from Yangtze River Delta, Guangdong-Hong Kong-Macao Greater Bay Area and Beijing-Tianjin-Hebei Region increased over the end of the previous year and amounted to a large portion of the Group's newly increased loans. The balance of inclusive loans under CBIRC's "two-increase" standards significantly increased over the end of the previous year to RMB246.29 billion.

During the nine months ended 30 September 2020, the net operating income of the Group increased by 5.17 per cent. on a year-on-year basis to RMB185.64 billion. The net profit (attributable to shareholders of the Bank) decreased by 12.36 per cent. on a year-on-year basis to RMB52.71 billion. The net interest income increased by 7.23 percent. on a year-on-year basis to RMB114.01 billion. The net fee and commission income increased 1.52 per cent. on a year-on-year basis to RMB34.98 billion. The annualised return on average assets and the annualised return on average shareholders' equity were 0.69 per cent. and 9.39 per cent., representing year-on-year decreases of 0.14 per cent. and 2.41 per cent., respectively.

During the nine months ended 30 September 2020, the monthly active users of BOCOM mobile banking services increased as compared to the end of the previous year. The transaction amount by instalment through "Go Pay" APP increased as compared to the same period in the previous year. The number of corporate mobile banking customers increased as compared to the end of the previous year. The customer base of WeChat cloud banking services significantly increased as compared to the end of the previous year. As at 30 September 2020, personal financial assets under management of the Group increased as compared to the end of the previous year and the end of June 2020, respectively. As at 30 September 2020, the assets of private banking customers under management increased as compared to the end of the previous year and the end of June 2020, respectively.

The impact of the COVID-19 pandemic and the Group's responses

Since 2020, the pandemic of COVID-19 has spread around the world, becoming the most severe shock to hit the global economy after the 2008 global financial crisis. With the normalisation of domestic pandemic prevention and control and gradual improvements in domestic demand, China's economy is recovering.

In response to the COVID-19, the Group adjusted the forecast of macroeconomic indicators and the weightings of different macro scenarios in 2020 and 2021. As a result, the credit impairment losses increased significantly on a year-on-year basis. To help the society to recover faster from COVID-19, the Group has made active measures to assist the resumption of work and production as well as the reopening of business and markets. In the first half of 2020, the Group issued RMB311.20 billion of pandemic-related loans accumulatively, underwrote 18 pandemic prevention related bonds in the total amount of RMB11.35 billion, optimised online financial services as well as enhanced its risk management.

Issuance of undated capital bonds

On 10 March 2020, the 2020 first extraordinary general meeting of the Bank passed the special resolution to approve the proposal in relation to the issuance of undated Additional Tier 1 capital bonds. The Bank intends to issue no more than RMB90 billion or equivalent foreign currencies in the domestic and overseas markets. In July and August 2020, the Bank has successively obtained the relevant approvals from the CBIRC and the PBOC in relation to the issuance of the undated capital bonds. On 23 September 2020, the bookkeeping of the undated capital bonds has been filed, and the issuance of the undated capital bonds has been successfully completed on 25 September 2020 in the national inter-bank bond market with a total issuance amount of RMB30 billion. The coupon rate of such bonds for the first five years is 4.59 per cent. and is subject to adjustment every five years.

In November 2020, the Bank has received the *Approval in relation to the Issuance of the Offshore Undated Capital Bonds by Bank of Communications Co., Ltd.* (Yin Bao Jian Fu [2020] No.766) from the CBIRC, pursuant to which, the CBIRC approved the Bank to issue offshore undated capital bonds in foreign currencies at an equivalent amount of not more than RMB20 billion. On 18 November 2020, the Bank has completed the issuance of the U.S.$2,800,000,000 undated capital bonds in the offshore market. The initial distribution rate of the undated capital bonds is 3.80 per cent. per annum for the first five years. Thereafter, the distribution rate will be reset every five years.

Proposed capital increase to Bank of Communications (Hong Kong) Limited

On 10 March 2020, the 2020 first extraordinary general meeting of the Bank passed the special resolution to approve the proposal in relation to the capital increase of no more than HKD30.0 billion to Bank of Communications (Hong Kong) Limited, a wholly-owned subsidiary of the Bank. Within the above capital increase quota and in response to the need of the recent business development of Bank of Communications (Hong Kong) Limited, the Bank intends to inject capital of HKD20.0 billion to it initially. In July, the Bank has obtained the relevant approval from CBIRC in relation to the proposed capital increase. Once the capital increase is completed, Bank of Communications (Hong Kong) Limited would still remain a wholly-owned subsidiary of the Bank.

Proposed investment in National Green Development Fund Co., Limited

The meeting of the Board of the Bank held on 27 March 2020 passed the resolution to approve the funding of RMB7.5 billion into setting up National Green Development Fund Co., Limited (the "**Investment**"). The amount of the fund would account for 8.47 per cent. of the registered capital of National Green Development Fund Co., Limited, which comes from Bank's equity fund. The Bank aims to facilitate the real economy development in China and fulfil its social responsibilities via this proposed Investment. The Investment is subject to further regulatory approvals.

Redemption of non-cumulative perpetual offshore preference shares

On 29 July 2020 (the "**Redemption Date**"), the Bank redeemed U.S.$2.45 billion non-cumulative perpetual offshore preference shares (the "**Offshore Preference Shares**") at the redemption price, being the aggregate of the issue price (i.e. the amount of liquidation preference) of each Offshore Preference Share plus any declared but unpaid dividends accrued in respect of the period from (and including) the immediately preceding dividend payment date to (but excluding) the Redemption Date in respect of each Offshore Preference Share. Subsequent to the redemption and cancellation of the Offshore Preference Shares on the Redemption Date, there were no Offshore Preference Shares outstanding for the Bank.

The establishment of Fintech subsidiary

The Group established BOCOM Financial Technology in August 2020 with a registered capital of RMB0.6 billion. BOCOM Financial Technology will focus on the three main businesses of "high-end infrastructure research and development and talent supply, business application development for the Group's subsidiaries, third-party customers' service and product output". BOCOM Financial Technology will accelerate research and development of products, create technological value and empower financial business developments.

THE BANK'S AWARDS

The Bank believes the brand of "Bank of Communications" is one of the most recognised financial service brand names in China. In 2020, the Bank has been rewarded "2019 Excellent Green Bank" by the Green Credit Business Committee of China Banking Association and awarded A Level for 2019 in consumer protection by the PBOC. The Bank was honoured in Fortune 500 for twelve consecutive years and was ranked No. 162 in the first half of 2020 in terms of operating income, raising 12 places higher than the previous year. In 2019, the results of the Bank's various business operations have been fruitful. In particular, the Bank was awarded "2019 Best Bank for Poverty Alleviation" (最佳脫貧攻堅銀行) by "Financial Times". Besides, the Bank was awarded "Best Wealth Management Bank in China" (最佳銀團項目獎) by China Banking Association, "Annual Financial Institution" (年度金融機構) by 2019 TOP Financial List, "Award for Achievement on Implementing the Belt and Road Initiative" (積極踐行「一帶一路」倡議成效獎) by China Banking Association, "Top 10 Cases of Financial Innovation Serving the Real Economy in 2019" (2019金融創新服務實體經濟十大案例) by Hong Kong Commercial Daily. The Bank was also ranked by The Banker as No. 11 in the Top 1000 World Banks 2019. In 2018, the Bank was ranked No. 168 in the "Fortune Global 500" list in terms of revenue, raising three places higher than the previous year. In 2018, the Bank was ranked by The Banker as No. 11 in the Top 1000 World Banks. In 2018, the Bank also won numerous other awards, including "Annual Banker — Peng Chun" (年度銀行家 — 彭純) by CBN, "China Top 100 Excellent Secretary of the Board of Directors — Gu Sheng" (中國百強優秀董秘獎 — 顧生) by China Business Top 100, "Caixin ESG Excellent 50 Index Winner" (財新ESG美好50指數獲獎企業) by Caixin, "First Class Bank on the Assessment and Evaluation of the Protection of Consumer Rights in the Banking Industry" (銀行業消費者權益保護工作考核評價一級行) by CBIRC, 135 network outlets were awarded "Top 1,000 Outlets with Civilised and Standardised Services in the Banking Industry" (銀行業文明規範服務千佳單位), ranking first in the industry in terms of the number; "Best Corporate Social Responsibility Financial Enterprises" (最具社會責任金融機構) by China Banking Association, "Best Local Bank" (最佳本地銀行) by The Asset, "'Jin Li Cai' Top Award of Wealth Management Bank of the Year, 'Jin Li Cai' Outstanding Award of Personal Bank of the Year" (「金理財」年度銀行財富管理品牌卓越獎、「金理財」年度私人銀行卓越獎) by Shanghai Securities News, "Best Wealth Management of the Year" (年度最佳財富管理銀行) by Financial Times, "Jun Ding Award of Excellent Wealth Management Institution of the Year" (年度優秀財富管理機構君鼎獎) by Securities Times, "Best Comprehensive Bank, Best Innovative Bank" (最佳綜合性銀行、最具創新力銀行) by Eastmoney.com, "Best Asset-backed Securitisation Award in China", "China Best Cash Management Service Bank" (中國區最佳資產證券化獎、中國最佳現金管理服務銀行) by The Asset, "Corporate Banking with Competitiveness of Excellence of the Year" (年度卓越競爭力對公業務銀行) by China Business Journal, "Premier Platinum Credit Card of the Year" (年度卓越白金信用卡) by 21st Century Media, "Excellent Credit Card of the Year (Go Pay APP)" (年度卓越信用卡APP(買單吧)) by Organizing Committee of the 21st Century Asian Financial Annual Conference, "Best Green Bonds Bank" (最佳綠色債券銀行) by Asia Money, "Top 10 Financial Innovation Award (Credit Card Center Intelligent Robots)" (信用卡中心智慧型機器人坐席獲十佳金融產品創新獎) by The Banker. Prior to 2018, the Bank also received awards including, "Best Corporate Social Responsibility of the Year, Financial People of the Year — Peng Chun" (年度社會責任、年度金融人物 — 彭純) by the Paper, "Caixin ESG Excellent 50 Index Winner" (財新ESG美好50指數獲獎企業) by Caixin, "Excellent State-owned Commercial Bank of the Year" (年度卓越國有商業銀行) by Economic Observer, "Best Financial Institution of the Year, Most Reliable Banking Brand of the Year" (年度優秀金融機構、年度用戶信賴銀行品牌) by hexun.com, "The Most Influential Banking Brand of the Year, Excellent Credit Card Bank of the Year" (年度最具影響力銀行品牌、年度卓越信用卡銀行) by Wallstreetcn, "Most Reliable Bank" (年度值得信賴銀行獎) by Financial World, "2017 Top 10 News: Mobile-based Credit Card" (2017 年金融信息化 十件大事之一:手機信用卡) by Financial Computerizing, "2017 Premier Platinum Credit Card" (2017年度卓越白金信用卡) by 21st Century Media, "Best Wealth Management Bank of the Year" (年度最佳財富管理銀行) by Financial Times, "Best Green Financial Institution" (最佳綠色金融機構) by CBN, "'Jin Li Cai' Outstanding Award of Wealth Management Bank of the Year, 'Jin Li Cai' Outstanding Award of Personal Bank of the Year" (「金理財」年度銀行財富管理品牌卓越獎、「金理財」年度私人銀行卓越獎) by Shanghai Securities News, "Financial Innovation Award in China" (中國金融創新獎) by The Banker, "State-owned Commercial Bank with Excellent Competitiveness and Wealth Management Bank with Excellent Competitiveness" (卓越競爭力國有商業銀行、卓越競爭力財富管理銀行) by China Business Journal, "Jin Chan" Award of Wealth Management Bank of the Year (the 11th Session)" (第十一屆「金蟬獎」年度財富管理銀行獎項) by China Times, "Best Supply Chain Financing Bank" (最佳供應鏈融資銀行) by Euromoney, "Best Wealth Management Bank of the Year, Highest Investment Value of Bank of the Year" (年度最佳財富管理銀行、年度最具投資價值銀行) by sina.com, "Best Integrated Bank of the Year, Best Bank of Trustees of the Year, Best Credit Card Product of the Year (BoCom WALMART Card)" (年度最佳綜合性銀行、年度最佳託管銀行、年度最佳信用卡產品、交通銀行沃爾瑪卡) by eastmoney.com.

THE BANK'S COMPETITIVE ADVANTAGES

A fast growing state-owned bank in China with sustainable improvement in value creation

Known as a "centuries-old bank", the Bank established its time-honoured financial brand with a long-standing history and accumulative competitive advantages. As at 30 June 2020, the total assets of the Group amounted to approximately RMB10,669 billion. The total deposits of the Group reached

RMB6.5 trillion and the loans and advances to customers of the Group amounted to RMB5.7 trillion. The Bank enjoys high recognition and reputation nationwide. The Bank was ranked in Fortune 500 for twelve consecutive years, and ranked No. 162 in terms of operating income. The Group's Tier-1 capital ranked No.11 among the global Top 1000 banks for four consecutive years rated by The Banker.

The Bank has always been a pioneer of reformation in banking sector since reorganisation. The Bank is the first national joint-stock commercial bank in China, the first integrated commercial bank to carry out banking, insurance and securities businesses and the first domestic largescale commercial bank to successfully bring in foreign capital and to list overseas. In 2015, the Bank took the initiative to be responsible for the financial pilot reform in China after its reformation plan, BoCom's Plan to Strengthen Reformation, approved by the State Council. In taking "creating shared value and providing the best service" as its core value, the Bank will continue to implement reformation as appropriate and place emphasis on the continuous strategic landscape for stronger wealth management characteristics, with an aim to become a bank with top wealth management businesses and global competitive capabilities in the world.

The Bank is one of the first banks to initiate the concept of wealth management services in the industry. The brand and characteristics of wealth management became more and more prominent with the continuous development of the Bank's wealth management service system. The Bank has also obtained various licenses relating to trust, leasing, fund, insurance, securities and financial investment, to develop its wealth management business. In 2019, the Bank set up and continuously expanded its asset management subsidiary and fund management subsidiary. The Bank has built up a product and service system categorised by wealth preservation and incrementation, financial planning and risk hedging in order to provide online and offline financial services in relation to on-and-off balance sheet and debt and equity investment. Targeting retail customers, the Bank also integrated certain retail services into the system with respect to wealth management, family trust, insurance broker and asset management. As at 31 December 2019, the personal assets under management of the Group exceeded RMB3 trillion.

The Group maintains constant and steady growth in terms of its business scale. The Group's corporate banking businesses routinely increased, especially for its industrial value chain financial businesses and its inclusive financial business. As at 30 June 2020, the Group's corporate deposit balance increased by 8.05 per cent. over the end of the previous year to RMB4,356.31 billion, and its corporate loan balance (including discounted bills) increased by 9.88 per cent. over the end of the previous year to RMB3,900.11 billion. As at 30 June 2020, the Group's total accumulated number of qualified industrial chain networks developed by domestic branches exceeded 4,900 and the balance of key products of industrial value chain financing increased by 7.06 per cent. to more than RMB150.0 billion over the end of the previous year. As at 30 June 2020, the balance of the Group's inclusive financial loans was RMB214.720 billion, representing an increase of RMB50.769 billion or 30.97 per cent. over the end of the previous year. The number of customers granted with the loans was 131,100, representing an increase of 26,700 over the end of the previous year. The Group's personal banking business also showed an upward trend. As at 30 June 2020, the Group's balance of personal deposits increased by 8.21 per cent. over the end of the previous year to RMB2,131.57 billion, and its balance of personal loans increased by 4.25 per cent. over the end of the previous year to RMB1,829.41 billion. As at 30 June 2020, the number of registered credit cards amounted to RMB71.47 million, and the accumulated number of domestic Pacific debit cards issued amounted to RMB155.13 million. The Group also focused on developing consumer finance, optimising its online application named "Benefit Loan", leveraging its FinTech services and improving its intelligent risk management capabilities during the same period. In addition, the Group's inter-bank and financial market businesses progressed steadily. As at 30 June 2020, the Group's financial investments amounted to RMB3,247.15 billion, representing an increase of 8.03 per cent. over the end of the previous year. As at 30 June 2020, the average balance of current inter-bank deposits in the financial factor market was RMB224.21 billion, representing an increase of RMB24.27 billion over the previous year.

Committed to building the international and comprehensive financial service platform

The Bank is committed to becoming a first-class international bank with advantages in international businesses and delivering global financial services. The Bank is one of the most internationalised domestic banks in China and its international layouts are at the forefront with respect to its domestic counterparts. Its overseas banking institutions have initially sprouted up within the Asia-Pacific area. Taking it as a base camp, the Bank also expanded its global landscape by tapping into Europe and the United States. As at 30 June 2020, the Bank has set up 22 overseas branches, subsidiaries and representative offices in 17 countries and regions, with 68 overseas business outlets. The Group established an overseas banking service network with 1,026 banks in 126 countries and regions, set up 252 cross-border Renminbi inter-bank accounts for 111 overseas Renminbi participating banks and opened 81 foreign currency settlement accounts in 26 major currencies at 62 banks in 31 countries and regions. In addition, during the six months ended 30 June 2020, the net profit of the Group's overseas banking institutions decreased by 7.19 per cent. since the same period in the preceding year to RMB3.30 billion, whose contribution to the Group's total net profit increased by 0.72 percentage points to 9.05 per cent. since the same period in the preceding year. As at 30 June 2020, the total assets of the Group's overseas banking institutions increased by 8.18 per cent. over the end of the previous year to RMB1,259.27 billion, whose contribution to the Group's total assets increased by 0.05 percentage points to 11.80 per cent. over the end of the previous year.

To facilitate the globalisation of domestic enterprises, the Bank and HSBC has also jointly launched a program named "1+1 Global Financial Cooperation" to provide related services and advices. Moreover, the Group is a qualified partner bank of China International Trade "Single Window" platform and docked with the local "Single Window" platforms of Shenzhen, Shanghai, Sichuan, Jiangsu, Fujian, and Xiamen to provide services such as purchase and payments of cross-border foreign exchange and trade financing. During the six months ended 30 June 2020, international payments made through the Group reached RMB1,068.28 billion, representing an increase of 10.64 per cent. since the same period in the preceding year, while volume of international trade finance reached RMB95.88 billion, representing an increase of 55.62 per cent. As at 30 June 2020, the volume of foreign guarantee provided by the Bank's domestic branches reached RMB14.27 billion.

In addition to enhancing its global influence, the Bank is also devoted to promoting the integration of its businesses. To be facilitated by its various wholly-owned and controlling subsidiaries, the Group provides comprehensive financial services and products to its customers, comprising fund, trust, financial leasing, onshore insurance, investment banking, offshore insurance, debt-to-equity swap and wealth management. Bank of Communications Schroder Fund Management Co., Ltd., whose primary businesses are fund raising, fund sales and asset management, was awarded "Top 10 Star Fund Company" and "Star Fund Company in Active Equity investment" by *Securities Times* and "Golden Bull Fund Management Company" by *China Securities Journal* in the first half of 2020. Its yield of equity investment under active management ranked the second (2/73) in the industry in the recent five years and the fifth (5/91) in the industry in recent three years. Staying committed to fulfilling the original mission as a trust company to serve the real economy, Bank of Communications International Trust Co., Ltd. focuses on the development of three key businesses, namely, asset management, wealth management and fiduciary services. As at 30 June 2020, its assets under management amounted to RMB705.70 billion. Adhering to the development strategies as "Professional, Internalisation, Differentiation and Characteristics", Bank of Communications Financial Leasing Co., Ltd. continues to promote aviation and shipping leasing businesses. Both the total amount of leasing assets and its increment Bank of Communications Financial Leasing Co., Ltd. ranked among the best in the industry for years. As at 30 June 2020, its balance of leasing assets amounted to RMB266.66 billion, representing an increase of 7.73 per cent. over the end of the previous year, including aircraft and ship assets amounting to RMB165.06 billion, with fleets of 250 planes and 427 ships in possession and under management. In relation to onshore insurance, BoComLife Insurance Company Limited remains committed to providing insurance guarantee and maintains a stable performance. During the six months ended 30 June 2020, its original premium income was RMB11.40 billion, representing an increase of 29.55 per cent. since the same period in the preceding year. With respect to offshore insurance, China BoCom Insurance Co., Ltd. expands its banking-related insurance business domestically and overseas and officially obtains the full-coverage aviation insurance license issued by the Hong Kong Insurance Authority (namely, No. 5 Aviation Insurance License and No.11 Aviation Liability Insurance License). BOCOM Financial Assets Investment Co., Ltd. made great efforts to implement market-oriented debt-to-equity swap transactions and effectively reduced its corporate leverage ratio. As at 30 June 2020, a total of 60 debt-to-equity swap projects were completed, amounting to RMB32.60 billion. Since its establishment in June 2019, BOCOM Wealth Management Co., Ltd. has successively issued wealth management products to retail customers, private banks and inter-bank customers in both public and private offerings for value preservation and incrementation.

Furthermore, the net profits of the Group's wholly-owned and controlling subsidiaries have rapidly increased. During the six months ended 30 June 2020, net profit attributable to shareholders of the Bank from the Group's wholly-owned and controlling subsidiaries (excluding Bank of Communications (Luxembourg) Co., S.A., Banco BOCOM BBM S.A. and Bank of Communications (Hong Kong) Co., Ltd.) amounted to RMB3.31 billion, representing an increase of 17.78 per cent. compared to the previous period of the previous year, the proportion of which to the Group's net profit increased by 2.49 percentage points to 9.05 per cent. compared to the previous period of the previous year. As at 30 June 2020, the total assets of the Group's wholly-owned and controlling subsidiaries increased by 10.79 per cent. over the end of the previous year to RMB470.55 billion, the proportion of which to the total assets of the Group increased by 0.12 percentage points to 4.41 per cent. over the end of the previous year.

Prominent wealth management services

The Group grasped market opportunities and cooperated with sophisticated fund managers to manage its funds and investments, aiming to create conventional, popular and featured wealth management products and build up the name of BOCOM Wealth (defined below). In addition, the Group designed affordable insurance products in response to the outbreak of the COVID-19 pandemic, the trend of resumption of work and the wave of purchase of medical insurance. As at 30 June 2020, personal financial assets under management ("**AUM**") of the Group increased by 8.17 per cent. and the balance of wealth management products increased by 11.12 per cent. over the end of the previous year. As at 30 June 2020, the number of private banking customers increased by 13.29 per cent. over the end of the previous year and number of customers registered with the Group's intelligent financial service platform reached 37,500 in total. In addition, the Group has established comprehensive service brands for its customers in relation to wealth preservation. The Group provided retail and individual customers, corporations and financial institutions with comprehensive financial services, building up a complete series structure comprising "Win to Fortune", a corporate wealth management brand of the Bank providing comprehensive wealth management solutions to corporate and government institutions, "OTO Fortune", a retail business brand of the Bank devoted to realising wealth preserving and incrementing for the customers, "Institutional Financial", created to facilitate inter-bank businesses relying on the Group's integrated wealth management services and diversified products and "Leadway Fortune", designed to satisfy customers' international financial needs by providing cross-border transaction services. As at 30 June 2020, the actual number of the Group's OTO Fortune customers reached 1,632,500, representing an increase of 8.54 per cent. over the end of the previous year, and the actual number of the Group's private banking customers increased by 13.29 per cent. over the end of the previous year.

Comprehensive and robust risk management

The Board of Directors of the Bank assumed the ultimate responsibility, served the highest function of decision-making and monitored the Group's risk management through its Risk Management and Related Party Transaction Control Committee. The Bank's Senior Management established a "1+4+2" Risk Management Committee, where four subcommittees were established under Comprehensive Risk Management Committee, namely Credit Risk Management Committee, Market and Liquidity Risk Management Committee, Operational Risk Management Committee and Compliance (Anti-Money

Laundering) Committee. Two business review committees, namely Credit and Investment Review Committee and High-risk Asset Review Committee were also established. Each provincial branch directly managed by the head office, overseas branch, subsidiary and directly operating institution correspondingly established risk management committee accordingly referring to the aforementioned framework. In addition to the plenary meeting of the Comprehensive Risk Management Committee, each provincial branch directly managed by the Head Office also set up the executive meeting of the Comprehensive Risk Management Committee, which served as the main platform for the leader and members of the team to study the prevention and control of systematic and regional risks and decision-making risks on major issues. Besides, the Group laid great importance to the establishment and application of risk management tools, information systems and econometric models. Risk management was supported by FinTech. The Group actively explored the application of big data, artificial intelligence, cloud computing and graphic computing in the field of risk management, strengthened the construction of the Group's ecological system of risk data application and created a unified risk monitoring system of the Group.

Moreover, in order to win two battles of pandemic prevention and control and risk management in responses to the COVID-19 outbreak, the Group deepened the reform of credit risk and anti-money laundering management and strengthened asset quality management under such pandemic. In addition, the Group also developed innovative risk management technology tools, reinforced prevention of non-compliance cases and control and improved the ability to withstand risks, ensuring the bottom line of preventing the occurrence of systematic and regional risks.

Experienced and professional management team and talent pool

The Group's senior management has an average of more than 20 years' experience in banking practice and is well experienced in management. Among the Group's senior management, Mr. Ren Deqi, the Chairman of the Board of Directors and Executive Director, has over 30 years' experience in banking sector, holding important positions. The Group also launched three major projects, namely, "10,000 Fintech Talent Plan", "Fintech Management Trainees" and "Empowerment Transformation of Existing Talents" to enrich its Fintech talents pool in a timely fashion. As at 30 June 2020, there were 3,608 domestic Fintech talents of the Group, representing an increase of 67.89 per cent. over the end of the previous year.

The Group also adheres to pursuing operational improvements and actively reforms its corporate governance structure in a professional manner. Currently, the Bank has established its modern corporate governance mechanism comprising the Shareholders' General Meeting, the Board of Directors, the Board of Supervisors and Senior Management with clearly defined roles, authorities and responsibilities. Based on their mutual coordination and individual operation, the Group protects the legitimate rights and interests of shareholders and other stakeholders and functions fairly and efficiently.

LONG-TERM WIN-WIN PARTNERSHIP WITH HSBC

In 2004, the Bank and HSBC set up the framework of their strategic cooperation. For more than ten years, the foundation of the cooperation between the two parties remains solid and strong. Both parties aim to provide strategic services to Chinese market by combining their respective strengths to meet the foreign currency financing requirements of Chinese enterprises and extend their cooperation on various aspects. For example, the parties continue to focus on developing overseas regional cooperation. As at 31 December 2019, the total amount of cooperative bond issuances and syndicated loan projects between the two banks in Hong Kong was USD67.00 billion, the total amount of cooperative syndicated loan projects in Europe and Australia was USD16.02 billion, and the total amount of treasury and re-financing projects in other overseas regions was USD37.90 billion. Moreover, both parties intended to enhance the trusteeship and fund consignment cooperation.

Through mutual referrals of their individual products, the two banks cooperated on 19 trust products, amounting to RMB22.14 billion during the year ended 31 December 2019. As at 31 December 2019, the Bank has also sold 21 HSBC Jintrust fund products on consignment, which amounted to RMB2.31 billion.

By prioritising their cooperative relationship, the senior management of both parties continuously maintain close and smooth communications. In 2019, to intensify their communication, the parties signed a new resources and experience sharing agreement with a term of three years. Based on the agreement, the two parties are able to actively interact with each other, share views on the Fintech trend, the macroeconomic situation the industry development and international regulatory trends and realise technology cooperation and exchange in a more efficient manner.

In addition to their business cooperation, both parties jointly shoulder the social responsibilities and make recognised contribution to public welfare. A public welfare project named "BoCom ● HSBC Shanghai Yi Le Action" has been firmly implemented by the two parties. During the year ended 31 December 2019, they funded a number of projects for the elderly in relation to areas such as business education, health care, mental support, community affairs, social and entertainment and public facilities. As at 31 December 2019, 810 business activities are carried out, which resulted in direct benefits for 32,211 people.

The Bank and HSBC will continuously pursue their fruitful cooperation, actively seek opportunities relating to "Belt and Road" initiative, the integration of Yangtze River Delta and the construction of "Guangdong-Hong Kong-Macao Greater Bay" and steadily create quantifiable and tangible business value stemming from their cooperation.

THE GROUP'S PRINCIPAL BUSINESS ACTIVITIES

The Group's principal lines of business consist of corporate banking, personal banking and inter-bank and financial market businesses. Corporate banking businesses include various financial products and services for enterprises and government agencies, such as deposits and loans, supply chain finance, cash management, international settlement and trade finance, investment banking, asset custody, wealth management and all kinds of intermediary businesses. Personal banking businesses include services such as deposits and loans, wealth management, bank cards, private banking and all kinds of intermediary businesses for individual customers. Inter-bank and financial market businesses include cooperation with customers in the markets such as markets of interest rates, exchange rates, commodities and comprehensive services such as investment and financing, transactions, agency, settlement and liquidation. In addition, the Group expanded its businesses in fund, trust, financial leasing, insurance, overseas securities, debt-to-equity conversion and asset management through its subsidiaries.

Corporate Banking Business

As at 30 June 2020, the Group's corporate deposit balance increased by 8.05 per cent. from the beginning of 2020 to RMB4,356.311 billion and corporate loan balance increased by 9.88 per cent. from the beginning of 2020 to RMB3,900.107 billion. The Group focused closely on serving the real economy, giving full play to the advantages of international and integrated operation and satisfying the full range of customers' financing needs by product portfolios such as credit, bonds, funds, leasing, trust, asset management, insurance, investment and loan linkage, and fully supported major national strategies, major projects, and key areas. The Group strengthened technology empowerment and established a good brand in areas including cash management, industrial chain finance, investment banking and cross-border finance. As at 30 June 2020, the Group's corporate non-performing loan balance increased by 25.86 per cent. from the beginning of 2020 to RMB74,815 million and the impaired loans ratio increased by 0.26 per cent. from the beginning of 2020 to 2.04

per cent. As at 31 December 2017, 2018 and 2019 and 30 June 2020, the Group's outstanding corporate loans and advances represented 69.21 per cent., 66.31 per cent., 66.92 per cent. and 68.07 per cent., respectively, of the Group's total gross loans and advances to customers before impairment allowances.

Corporate and Institutional Business

Corporate Loans

Corporate loans have historically constituted the largest component of the Group's loan portfolio. The Group's corporate loans consist of short-term loans and medium- and long-term loans. As at 30 June 2020, the Group had RMB3,668,822 million of corporate loans outstanding, representing 64.03 per cent. of its total gross loans and advances to customers.

Short-term Loans

Short-term loans have maturities of no more than one year. The Group's short-term loans include, among others, working capital loans and trade finance. The Group provides revolving loans to its larger corporate customers to meet their special working capital or cash flow needs.

Medium- and Long-term Loans

Medium-term loans have maturities of longer than one year but no more than five years, and long-term loans have maturities of more than five years. The Group provides medium- and long-term loans to its corporate customers for a wide range of business purposes, including, among others, infrastructure development and construction, technology innovation and working capital.

Consistent with its focus on credit quality and diversification, the Group lends to corporate borrowers in a wide range of industry sectors and across all geographic regions of the PRC. The Bank's corporate loans as at 30 June 2020 were mainly concentrated in the four industries of manufacturing, transportation, storage and postal services, leasing and commercial services and water conservancy, environmental and other public facilities, which collectively accounted for 60.92 per cent. of total corporate loans.

Corporate Deposits

The Bank offers two principal deposit products, interest-bearing demand deposits and time deposits, to its corporate customers in Renminbi and major foreign currencies. Demand deposits accrue interest that is paid out on a quarterly basis, and account holders may withdraw their funds at any time. Time deposits require that the customer maintain a deposit for a fixed term, during which interest accrues at a fixed rate. Account holders may withdraw funds prior to maturity with interest payments calculated based on the demand deposit interest rate. The Group's additional deposit products include deposit agreements, negotiated deposits and call deposits. As at 30 June 2020, the Bank's corporate deposits amounted to RMB4,356,311 million, representing 67.12 per cent. of its total customer deposits.

Bill Discounting

The Group offers bill discounting by providing its customers with cash for their unmatured bills of exchange. This facility is provided by the Bank to its customers as a source of short-term financing. The interest rate that the Group charges for bill discounting varies according to the credit worthiness of the customers and the bill discounting market condition. The Group can have these instruments re discounted with the PBOC or other financial institutions authorised to conduct bill discounting business, providing it with liquidity and income. In addition to bank acceptance bills, the Group also purchases commercial acceptance bills issued by certain major entities with high credit ratings. As at 30 June 2020, the Group had RMB231,285 million in outstanding discounted bills, representing 4.04 per cent. of its loans.

Inclusive finance businesses

The Group built an inclusive financial service system concentrating on online products, industrial value chain finance, scenario-based customer groups and other primary businesses to develop businesses in key areas, including micro and small enterprises, agriculture, rural areas and farmers, poverty alleviation and mass entrepreneurship and innovation. The Bank aims to strike a balance between “quantity” and “price”, relieving small and micro enterprises from difficult financing and expensive financing. The Bank also promoted differentiated post-loan monitoring and management and improved online risk control capabilities. As at 30 June 2020, the balance of inclusive financial loans under the “two-increase” standards was RMB214.72 billion, representing an increase of RMB50.769 billion or 30.97 per cent. over the end of the previous year. The number of customers with loan balances was 131,100, representing an increase of 26,700 over the end of the previous year. The impaired loan ratio was 2.24 per cent., representing a decrease of 0.98 percentage points over the end of the previous year. The average interest rate of cumulative loans and comprehensive financing cost of small and micro customers decreased by 39 basis points and 85 basis points respectively over the previous year.

Industrial Value Chain Financial Service

The Group focused on “Settlement Services + Trade Finance” to build an “Online + Offline” integrated service for the whole industrial chain. The Group applied an agile development model to optimise online system. The Group increased the promotion over major industries, such as construction, medical care, retail, automobile, modern agriculture and high-end manufacturing industries. As at 31 December 2019, the total accumulated number of qualified industrial chain networks developed by domestic branches exceeded 4,000 and the balance of key products of industrial value chain financing increased by 21.04 per cent. to nearly RMB150.0 billion over the end of the previous year. As at 30 June 2020, the total accumulated number of qualified industrial chain networks developed by domestic branches exceeded 4,900 and the balance of key products of industrial value chain financing increased by 7.06 per cent. to more than RMB150.0 billion over the end of the previous year.

Cash Management Business

The Group was dedicated to build a cross-border, cross-bank, and cross-currency global cash management service solution, deeply integrated the “Internet + Finance + Scenarios”, and innovatively launched the BoCom Intelligent Financial Service Platform and the “Jiao e Bao” Enterprise Online Trading Platform. BoCom Intelligent Financial Service Platform launched 21 industry financial service solutions including intelligent park, medical manager, pension manager and religion manager. The Bank enriched financial services of corporate liquidity management. The Group enhanced the promotion and research on treasury management system of financial companies and inter-bank fund management platform. As at 30 June 2020, corporate customers of e-channel cash management amounted to approximately 28,200 and the cash management accounts amounted to more than 923,800.

Investment Banking Business

The Bank’s investment banking business consists primarily of debt financing, equity financing, asset management, merger and acquisition financing and consultancy, financial consulting and advisory services and asset securitisation. Over the past few years, due to the continuous innovation of its investment banking business, the Group has successfully completed a number of significant deals in the PRC.

In respect of debt financing, the types of securities that the Group underwrites have been expanded, including on the domestic front short-term financing notes, medium-term notes and financial bonds and extending on the overseas front to offshore RMB-denominated bonds. As at the end of 2019, the Bank assisted the Ministry of Finance in issuing treasury bonds of RMB2.0 billion in Macao and sovereign bonds of EUR4.0 billion in Europe for the first time, treasury bonds of RMB10.0 billion and sovereign bonds of USD6.0 billion in Hong Kong. The Group completed major transactions as underwriter including the issuance of Central Huijin Investment Ltd.'s medium-term notes of RMB33.0 billion. The Group actively participated and facilitated cross-border bond issuance and ranked third in terms of the scale of underwriting overseas bonds in Chinese offshore bond market. As at 30 June 2020, The Group underwrote 18 pandemic prevention related bonds amounting to an aggregate principal amount of RMB11.35 billion. In addition, the Group completed several major domestic and foreign transactions as underwriters, including Sinopec's super short-term commercial paper of RMB5.0 billion, China Southern Airlines' super short-term commercial paper of RMB3.0 billion, and Baidu's USD1.0 billion bonds. In respect of asset management, the Group comprehensively promoted its asset securitisation business. As at 30 June 2020, the total underwriting amount of full-scale asset securitisation (including credit-asset-backed securities and asset-backed notes) of the Group ranked fourth in the PRC banking system. The Group underwrote innovative products such as the first credit asset-backed securities based on LPR in the financial market, and the first green asset-backed bill empowered by blockchain technology.

As at 30 June 2020, the domestic branches accumulatively underwrote 355 different bonds (excluding local treasury bonds). The underwriting amount (excluding local treasury bonds) was RMB251.48 billion. The Bank was awarded "2019 Tianji Award for Best Comprehensive Bank in Undertaking Investment Bank Business" by the *Securities Times* and "Top 10 Investment Bank Innovation Award in 2019" by *The Banker*.

Asset Custody Business

Seizing the opportunity of the reform and development of the national pension security system, the Group actively carried out professional annuity marketing. The Group won the bid for the qualification of professional annuity custodians in 29 overall planning areas. The Group also promoted the marketing of public fund custody businesses in multiple fields and channels, and the scale of its public fund custody ranked fourth in the market. The Group was one of the first commercial banks to have obtained the qualification to conduct certificate deposits businesses. Meanwhile, the Group steadily promoted cross-border custody businesses such as Hong Kong Bond Connect and QDII/QFII. As 30 June 2020, the Group's assets under custody reached RMB9.81 trillion, representing an increase of 4.46 per cent. over the end of the previous year.

Corporate online banking businesses

The Group focused on the expansion of online channels and mobile finance for small and micro enterprise customers and the increase of their mobile banking utilisation rate. As at 30 June 2020, the number of registered customers of corporate mobile banking increased by 27.92 per cent. over the end of the previous year. The Group continued to improve its customers' experiences, strengthened online settlement products and services, integrated and optimised the process of online corporate account opening and registering, and strengthened scenario marketing. The Group provided wider supporting services channels for customers through WeChat intelligent customer service assistants and telephone consulting service through corporate customer service team via the 95559 hotline. As at 30 June 2020, the number of corporate online banking customers increased by 10.09 per cent. over the end of the previous year.

Personal Banking Business

For the years ended 31 December 2017, 2018, and 2019 and the six months ended 30 June 2019 and 2020, the net operating income from the Group's personal banking operations were RMB67.895 billion, RMB77.957 billion, RMB88.686 billion, RMB54.300 billion and RMB60.701 billion, respectively, accounting for approximately 34.55 per cent., 36.59 per cent., 38.09 per cent., 45.89 per cent. and 47.81 per cent. of the Group's total net operating income for their respective periods. As at 30 June 2020, the balance of individual deposits of the Group increased by 8.21 per cent. from the beginning of 2020 to RMB2,131.570 billion, and the proportion of individual deposits increased by 0.04 per cent. from the beginning of 2020 to 32.84 per cent. The balance of personal loans of the Group increased by 4.25 per cent. from the beginning of 2020 to RMB1,829.406 billion, and the proportion of personal loans decreased by 1.15 per cent. from the beginning of 2020 to 31.93 per cent.

Personal Deposits and Wealth Management Businesses

The Group grasped market opportunities and cooperated with sophisticated fund managers to manage its funds and investments, aiming to create conventional, popular and featured wealth management products and build up the name of BOCOM Wealth (defined below). In addition, the Group designed affordable insurance products in response to the outbreak of the COVID-19 pandemic, the trend of resumption of work and the wave of purchase of medical insurance. The Group also focused on the customised services by taking into consideration the needs of its customers. The scale of the Group's personal financial AUM and the number of customers steadily increased. As at 30 June 2020, the Group's personal financial AUM increased by 8.17 per cent. from the beginning of 2020. The actual number of customers in connection with OTO Fortune, one of the major products in relation to retail business of the Bank, reached 1,632,500, representing an increase of 8.54 per cent. during the same period. Furthermore, with regards to an increase of the number of its private banking customers by 13.29 per cent. from the beginning of 2020, the Group actively responded to the demand of them and launched a list of private banking products. As at 30 June 2020, the assets of private banking customers under management increased by 14.13 per. cent. from the beginning of 2020. The balance of wealth management products increased by 11.12 per cent. from the beginning of 2020. And the AUM of its fund products increased by 30.05 per cent. during the same period.

Personal Loans Business

The Group supported reasonable demand for residential housing for personal use. The Group focused on consumer finance, relying on Fintech and data analysis and application. As at 30 June 2020, the Group had RMB1,196,808 million of personal residential mortgage loans outstanding. Although personal loans represent a smaller portion of the Group's overall loan business as compared to corporate loans, personal loans (including credit cards) increased by RMB74,641 million, or 4.25 per cent., from RMB1,754,765 million as at 31 December 2019 to RMB1,829,406 million as at 30 June 2020.

Private Banking Businesses

The Group strengthened internal coordination and expanded the scope of cooperation with external institutions. The scale of family wealth management, global asset allocation, exclusive net worth wealth management, private banking accounts, agency trusts, and insurance business continued to grow. The Group enhanced its professional service capabilities of private banking, providing professional support and decision-making basis for customers' asset allocation, product customisation, and plan design. As at 30 June 2020, the number of private banking customers increased by 13.29 per cent. over the end of the previous year. The assets of private banking customers under management increased by 14.13 per cent. over the end of the previous year.

Bank Card Business

Credit Card Business

Targeting at vehicle owners, women, and young people, the Bank launched several special products for the six months ended 30 June 2020, including Huanran Platinum Card, Ruika Platinum Card and Tuhu Pacific Credit Card, to optimise its general customer structure. In addition, in response to the growth of the customer consumption and to expand the domestic demand for its financial products, the Bank improved its mobile payment function and actively carried out various marketing activities. For example, the Bank's "Go Pay" APP was optimised and upgraded, and new functions such as flexible repayment and ETC services were added to the app, paralleling with the improvement of its mobile banking business. As at 30 June 2020, the accumulated number of registered customers exceeded 71.47 million. The number of registered customers of the "Go Pay" APP amounted to 62.42 million in total, with monthly active users reaching 23.14 million. As at 30 June 2020, the Group's credit card overdraft balance amounted to RMB445.266 billion, representing a decrease of 4.73 per cent. from the beginning of 2020, and the credit card overdraft non-performing ratio was 2.90 per cent., representing an increase of 0.52 per cent. during the same period.

Debit Card Business

The Group has offered debit card, quasi-credit card and credit card services in Renminbi under the brand name "Pacific Card" since 1993, 1996 and 2003, respectively. Holders of debit cards are required to maintain deposits in their accounts and are not allowed to incur overdrafts. Quasi-credit cards are Renminbi payment settlement tools that can be used for saving, transfer and settlement, as well as consumer payment. Upon application and approval by relevant branches, quasi-credit cards may also be used by customers for the payment of bills and instalment payments. Holders of quasi-credit cards are required to maintain deposits at a certain level in order to maintain access to their credit facilities. A credit card is a card whose holder has been granted a revolving credit line. The credit card enables the holder to make purchases and/or cash advances up to a pre-arranged limit. In 2002, the Bank introduced Pacific International Card, a debit card product for use in purchasing goods and services denominated in foreign currencies that targets cardholders with frequent international travelling needs. In September 2004, the Bank introduced dual-currency credit cards which include both Renminbi and U.S. dollar accounts. Holders of the Bank's dual-currency credit cards may use these cards to purchase goods and services from a domestic and international network of designated vendors. The Bank has also cooperated with a number of retailers to develop co-branded credit cards, including Suning, Hong Kong New World Department Store and Wal-Mart.

Since its launch in 1993, the Pacific Card has gained wide acceptance among customers and merchants. The Bank actively carried out business innovation of the Gold Neighbour Card, cardless debit card, multi-currency debit card and IC card multi-application, and launched several innovative products for mobile payment such as separate IC card and Pacific Gold Wealth Card. Given the use of mobile communication technology, the Bank also promoted C2B (customer to business) and C2C (customer to customer) scan code payment products, and electronic debit card products such as "Security Pay", cards without intermediary and featured value-added services such as "Worry-free Card" to provide customers with safer and more convenient services.

As one of the first cooperative banks that were connected to the Highway Monitoring & Response Centre, the Bank actively participated in the promotion of electronic toll collection ("**ETC**") across the country. Customers of the Bank and other banks can apply for ETC equipment in the Bank's mobile banking, with convenient services such as home delivery and Bluetooth activation. As at 30 June 2020, the number of domestic Pacific debit cards issued amounted to 155.13 million, representing a net increase of 2.75 million from the beginning of 2020. The accumulated expenditure by debit cards was RMB856.223 billion for the six months ended 30 June 2020, representing a decrease of 24.98 per cent. from the same period in the prior year.

Inter-bank and Financial Market Businesses

Inter-Bank Businesses

The Group deepened the business cooperation with other financial institutions in the financial factor market. Assisting Shanghai Clearing House in the expansion of market players in the financial factor market, the Group developed central counterparty clearing agency services, which ranked among the top in terms of market share in industries including foreign exchange and bonds. The Group provided foreign currency account banking services to the first three pilot foreign exchange settlement and sale brokers, to further enrich the structure of market players in the foreign exchange sector. The Group also implemented credit granting and capital write-down of the central counterparty to activate trading and lower capital cost. During the six months ended 30 June 2020, the average balance of current inter-bank deposits in the financial factor market was RMB224.21 billion, representing an increase of RMB24.27 billion over the previous year.

The Group strengthened the construction of interbank platforms. As at 30 June 2020, there were 1,277 cooperative corporate customers on inter-bank platforms, representing an increase of 147 over the end of the previous year. As at 31 December 2019, there were 965 cooperative banking corporate customers on inter-bank asset management platforms, representing an increase of 243 over the end of the previous year. Leveraging the advantages of inter-bank products, the Group actively carried out the "Rural Credit Cooperatives Project" and supported financial services of "Agriculture, Rural areas and Farmers" and remote areas through inter-bank cooperation. Moreover, as one of the pilot commercial banks, the Group initiated local bond counter businesses in areas such as Sichuan, Zhejiang and Beijing, providing investment products with profitability, liquidity and stability to local residents and small-and-medium institutions.

The Group supported the construction of multi-level capital markets and actively strengthened the system connection with securities companies and futures companies with relevant business qualifications. As at 30 June 2020, the Bank's system connection covered 99 per cent. of the third-party depository systems and 98 per cent. of the bank-future account transfer systems. The Group continuously carried out the "Customer Recommendation Gift for Transactions with Securities and Future Trading Companies" campaign. The number of customers for transactions with securities and future trading increased by 550,900 over the end of the previous year. The balance of the deposit pledged as collateral of futures trading companies reached RMB84.99 billion, maintaining a market leading position.

Financial Market Businesses

The Group actively performed the duties of a market maker in "Bond Connect" businesses. During the six months ended 30 June 2020, 1,331 "Bond Connect" transactions were completed by the Group, amounting to RMB160.89 billion. The Group signed master agreements for Renminbi bond lending and borrowing businesses with 128 institutions. During the six months ended 30 June 2020, the trading volume of Renminbi bonds of domestic branches reached RMB2.89 trillion, and the foreign exchange transaction volume in the inter-bank foreign exchange market reached USD1.02 trillion. During the same period, the accumulated amount of Renminbi currency market transactions of domestic branches reached RMB27.90 trillion, with RMB18.68 trillion lent and RMB9.22 trillion borrowed, and the Group's accumulated transaction volume of the foreign currency market reached USD586.07 billion.

In addition, the Group arranged different product positions quarterly, optimised the structure of bond and rationally optimised the duration of portfolio. As at 30 June 2020, the Bank's financial investment reached RMB3,247.146 billion, representing an increase of 8.03 per cent. over the end of the previous year. During the six months ended 30 June 2020, the Bank's securities investment yield was 3.53 per cent.

Asset Management Businesses

Under the unified arrangement of the Wealth Management Strategy Promotion Committee, the Group steadily promoted the transformation of off-balance-sheet wealth management business, boosted the competitiveness of net worth products, and provided customers with safe and stable wealth management services. During the six months ended 30 June 2020, the average wealth management products of the Group reached RMB1,005 billion, representing an increase of 12.18 per cent.

compared to the previous period of the previous year. During the six months ended 30 June 2020, the Group's average balance of net-worth asset management products was RMB460.61 billion, the proportion of which to wealth management products increased by 15.19 percentage points to 45.83 per cent. from the beginning of 2020.

INTERNATIONALISATION AND INTEGRATED OPERATION

Internationalisation Development

International Settlement and Trade Finance

The Group actively promoted international settlement and cross-border trade finance, provided financial support and guarantee for "Going Global" enterprises, launched the programme of cross-border "Payroll Intelligent Remittance" and realised the full channel coverage of cross-border remittance, which improved the convenience and security of settlement businesses. Moreover, the Group is a qualified partner bank of China International Trade "Single Window" platform and is connected with local "Single Window" platform of Shenzhen, Shanghai, Sichuan, Jiangsu, Fujian, and Xiamen. The Group provided services such as purchase and payment of cross-border foreign exchange, and trade financing. During the six months ended 30 June 2020, international payments made through the Group reached RMB1,068.28 billion, representing an increase of 10.64 per cent. since previous period in the preceding year. The volume of international trade finance reached RMB95.88 billion, representing an increase of 55.62 per cent. since previous period in the preceding year. As at 30 June 2020, the volume of foreign guarantee provided by the Bank's domestic branches reached RMB14.27 billion.

Clearing and Settlement

The Group provides domestic and international settlement services to its customers. The Group's domestic settlement products include, among others, drafts, promissory notes, cheques, foreign exchange, domestic letters of credit, consignment collection and acceptance, trust collection and traveller's cheques. The Group's international settlement products include, among others, international letters of credit, export collection, import collection, foreign exchange bills, inward and outward remittance. The Group also provides salary payment, collection and payment, as well as domestic and foreign currency exchange services. The Group is among the first group of domestic banks in the PRC authorised to provide cross-border Renminbi services. The Bank also provides various services relating to financial and non-financial guarantees for the benefit of third parties.

Trade Finance

The Group provides domestic and international trade finance services to its customers. The Group's trade finance primarily involves financing services for companies engaging in the procurement of commodities or sale of goods, or operating import and export businesses. The Group's domestic and international trade finance products and services include, among others, packaged loans, import/export bill purchase, domestic/ international forfaiting, import financing collection, import/export remittance financing, export invoice financing, import and export factoring, export factoring financing, bill purchase by the buyer/seller, letter of credit negotiation, payment on behalf of others under letter of credit, risk participation under letter of credit, domestic factoring and chattel mortgage. The Group actively utilised international factoring to help small and medium-sized foreign trade enterprises to avoid the risks from exported exchange collections and provide financing facilities. During the six months ended 30 June 2020, the volume of international trade finance made through the Group reached RMB95.88 billion, representing an increase of 55.62 per cent. since previous period in the preceding year. As at 30 June 2020, the volume of foreign guarantee provided by the Bank's domestic branches reached 14.24 billion.

Overseas service network

As at 30 June 2020, the Group has established 22 overseas branches or subsidiaries which are located in 17 countries and regions, with a total of 68 overseas business outlets. These overseas entities generally provide foreign currency lending and deposit-taking services, foreign exchange trading, international settlement and cross-border RMB settlement and financial services.

As at 30 June 2020, the Group established an overseas banking service network with 1,026 banks in 126 countries and regions, set up 252 cross-border Renminbi inter-bank accounts for 111 overseas Renminbi participating banks and opened 81 foreign currency settlement accounts in 26 major currencies in 62 banks in 31 countries and regions. In addition, the Bank has one wholly-owned subsidiary, Bank of Communications (Hong Kong) Limited, in Hong Kong that provide various services, including investment banking, securities trading, asset management and insurance services. For the six months ended 30 June 2020, net profits of the Group's overseas banking institutions decreased by 7.19 per cent. compared to the previous period of the previous year to RMB3.30 billion. As at 30 June 2020, the total assets of the Group's overseas banking institutions increased by 8.18 per cent. from the beginning of 2020 to RMB1,259.27 billion. As at 30 June 2020, the non-performing loan balances of the Group's overseas banking institutions was RMB385,018 million, and the impaired loan ratio was 0.99 per cent.

Cross-border Renminbi transactions

The Bank has been appointed and authorised by the PBOC as the won-yuan clearing bank in Seoul, South Korea in July 2014, the first such mandate for the Bank, to facilitate bilateral trade between China and South Korea and to boost the offshore financial transactions in Renminbi. The Bank thus became one of the first banks serving as a direct participant of the Cross-border Interbank Payment System ("**CIPS**"). During the six months ended 30 June 2020, the volume of cross-border Renminbi settlement of domestic and overseas banking institutions by the Group reached RMB1,082.47 billion, representing an increase of 8.61 per cent. since previous period in the preceding year.

Offshore services

With the advantages of being a licensed bank, the Group seized the opportunities arising from the development of the Lingang Special Area of Shanghai Free Trade Zone and the integration of the Yangtze River Delta. During the six months ended 30 June 2020, the net operating income of offshore business amounted to USD61.45 million. As at 30 June 2020, the balance of offshore assets of the Group reached USD17.10 billion.

Integrated Operation

In terms of universal operation, the net profits attributable to shareholders of the Bank from the Group's wholly-owned and controlling subsidiaries (excluding Bank of Communications (Luxembourg) Co., Ltd., Banco BOCOM BBM S.A. and Bank of Communications (Hong Kong) Co., Ltd.) amounted to RMB3.31 billion as to 30 June 2020, representing an increase of 17.78 per cent. compared to the previous period of the previous year, the proportion of which to the Group's net profit increased by 2.49 percentage points to 9.05 per cent. compared to the previous period of the previous year. As at 30 June 2020, the total assets of the Group's wholly-owned and controlling subsidiaries (excluding Bank of Communications (Luxembourg) Co., Ltd., Banco BOCOM BBM S.A. and Bank of Communications (Hong Kong) Co., Ltd.) increased by 10.79 per cent. from the beginning of 2020 to RMB470.55 billion, the proportion of which to the total assets of the Bank increased by 0.12 per cent. to 4.41 per cent. from the beginning of 2020.

Overseas Banking Institutions

Hong Kong Branch

Established in 1934, Bank of Communications Co., Ltd. Hong Kong Branch (the "**Hong Kong Branch**") is the Bank's largest overseas branch. In addition to foreign exchange deposits, foreign exchange loans and international settlement services, the Hong Kong Branch also provides non-banking services through its subsidiaries.

The Hong Kong Branch has placed an increasing emphasis on serving personal finance customers. For corporate finance operations, the Bank's Hong Kong Branch targets, among others, listed companies and large PRC state-owned enterprises. In addition, the Hong Kong Branch also actively participates in the syndicated loan market. In addition to generating interest income, the Hong Kong branch continues to focus on generating fee income. The Hong Kong Branch provides a variety of fee-based products and services.

On 29 January 2018, the Bank established Bank of Communications (Hong Kong) Limited in order to expand and intensify the Bank's retail and private banking business. The activities, assets and liabilities which constitute the retail and private banking businesses of the Hong Kong Branch of the Bank were transferred to the Bank of Communications (Hong Kong) Limited.

Other overseas branches and subsidiaries as at 30 June 2020 are:

- The Bank's New York branch commenced operation in November 1991.
- The Bank's Tokyo branch commenced operation in December 1995.
- The Bank's Singapore branch commenced operation in September 1996.
- The Bank's Seoul branch commenced operation in August 2005.
- The Bank's Frankfurt branch commenced operation in October 2007.
- The Bank's Macau branch commenced operation in November 2007.
- The Bank's Ho Chi Minh City branch commenced operation in February 2011.
- The Bank's London subsidiary commenced operation in November 2011.
- The Bank's Sydney branch commenced operation in November 2011.
- The Bank's San Francisco branch commenced operation in November 2011.
- The Bank's Taipei branch commenced operation in July 2012.
- The Bank's representative office in Toronto was opened in November 2014.
- The Bank's tier-2 branch in Brisbane commenced operation in April 2015.
- The Bank's subsidiary in Luxembourg commenced operation in May 2015.
- The Bank's subsidiary in Paris commenced operation in November 2016.
- The Bank's subsidiary in Rome commenced operation in November 2016.
- Banco BBM S.A. became a non-wholly owned subsidiary of the Bank in November 2016.

- The Bank's tier-2 branch in Melbourne commenced operation in December 2018.

- The Bank's Prague branch commenced operation in May 2019.

Major Subsidiaries

Bank of Communications Schroder Fund Management Co., Ltd. ("BoCom Schroder Fund")

BoCom Schroder Fund was set up in August 2005 with a registered capital of RMB0.2 billion, to which the Bank, Schroder Investment Management Limited and China International Marine Containers (Group) Co., Ltd. contributed 65 per cent., 30 per cent. and 5 per cent. respectively. Its primary businesses include fund raising, fund sales and asset management. As at 30 June 2020, BoCom Schroder Fund's total assets and net assets were RMB4.87 billion and RMB3.98 billion respectively. For the six months ended 30 June 2020, its net profits were RMB499 million. During the first half of 2020, it was awarded "Top 10 Star Fund Company", "Star Fund Company with Positive Return for Five Consecutive Years" and "Star Fund Company in Active Equity investment" by *Securities Times* and "Golden Bull Fund Management Company" by *China Securities Journal*.

Bank of Communications International Trust Co., Ltd. ("BoCom International Trust")

BoCom International Trust was set up in October 2007 with registered capital of RMB5.77 billion, to which the Bank and Hubei Provincial Communications Investment Group Co., Ltd. contributed 85 per cent. and 15 per cent. respectively. The main businesses of BoCom International Trust comprise trust loans, investment fund trusts, accounts receivable financing, real estate trusts, family trusts, charitable trusts, credit asset securitisation, corporate asset securitisation, qualified domestic institutional investment and private equity investment trusts. As at 30 June 2020, BoCom International Trust's total assets and the assets under management were RMB14.42 billion and RMB705.70 billion, respectively. For the six months ended 30 June 2020, its net profits were RMB613 million.

Bank of Communications Financial Leasing Co., Ltd. ("BoCom Leasing")

As the Bank's wholly-owned subsidiary, BoCom Leasing was set up in December 2007 with a registered capital of RMB14.0 billion. Its main business scope includes financial leasing and operating leasing in such key sectors as aviation, shipping and energy power, transportation infrastructure, equipment manufacturing and livelihood services. As at 30 June 2020, BoCom Leasing's total assets and net assets were RMB277.42 billion and RMB31.20 billion respectively. For the six months ended 30 June 2020, its net profits were RMB1.59 billion.

BoCommLife Insurance Company Limited ("BoComLife Insurance")

BoComLife Insurance was set up in January 2010 with a registered capital of RMB5.10 billion, of which the Bank and the Commonwealth Bank of Australia contributed 62.50 per cent. and 37.50 per cent. respectively. Its main businesses comprise life insurance, health insurance, accident insurance and reinsurance business of the aforementioned insurances. As at 30 June 2020, BoComLife Insurance's total assets and net assets were RMB64.47 billion and RMB6.81 billion respectively. For the six months ended 30 June 2020, its net profits were RMB321 million.

BoCom International Holdings Company Limited ("BoCom International Holdings")

BoCom International Holdings was set up in June 1998 (formerly known as Communications Securities Co., Ltd. It changed its name to BoCom International Holdings Company Limited in May 2007). It was listed on the main board of Hong Kong Stock Exchange on 19 May 2017. As at 30 June 2020, the Bank's shareholding in BoCom International Holdings was 73.14 per cent. The business scope of BoCom International Holdings are divided into four major sections, namely, securities brokerage and margin financing, corporate finance and underwriting, asset management and consulting, and investment and loan.

China BoCom Insurance Co., Ltd. ("BoCom Insurance")

BoCom Insurance is a wholly-owned subsidiary of the Bank, which was set up in November 2000 with a registered capital of HKD0.4 billion. Its main businesses comprise all kinds of general insurance businesses approved by the Insurance Authority of Hong Kong. As at 30 June 2020, BoCom Insurance's total assets and net assets were HKD0.82 billion and HKD0.56 billion respectively. For the six months ended 30 June 2020, its net profits were HKD6.58 million.

BOCOM Financial Asset Investment Co., Ltd. ("BOCOM Financial")

As a wholly-owned subsidiary of the Bank, BOCOM Financial was set up in December 2017 with a registered capital of RMB10.0 billion. As one of the first pilot banks to implement the debt-to-equity swap program as determined by the State Council, it mainly engaged in debt-to-equity swap transactions and supporting services. As at 30 June 2020, BOCOM Financial's total assets and net assets were RMB45.23 billion and RMB10.29 billion respectively. For the six months ended 30 June 2020, its net profits were RMB0.20 billion.

BOCOM Wealth Management Co., Ltd. ("BOCOM Wealth")

BOCOM Wealth was set up in June 2019 with a registered capital of RMB8.0 billion. It is a wholly-owned subsidiary of the Bank. It primarily issues public and private wealth management products and provides relevant asset management services such as wealth management advisory and consultation services. As at 30 June 2020, BOCOM Wealth's total assets and net assets were RMB8.47 billion and RMB8.39 billion respectively. For the six months ended 30 June 2020, its net profits were RMB0.30 billion.

Dayi BoCom Xingmin Rural Bank

Dayi BoCom Xingmin Rural Bank was set up in September 2008 with a registered capital of RMB60 million and is 61 per cent. owned by the Bank. Its main businesses comprise taking deposits from the general public, short, medium and long-term lending, domestic settlement, bill acceptance and discounts, interbank lending and borrowings, credit cards, agency issuances and settlements and other businesses approved by the CBIRC.

Zhejiang Anji BoCom Rural Bank

Zhejiang Anji BoCom Rural Bank was set up in April 2010 with a registered capital of RMB180 million and is 51 per cent. owned by the Bank. Its main businesses comprise taking deposits from the general public, short, medium and long-term lending, domestic settlement, bill acceptance and discounts, interbank lending and borrowings, credit cards, agency issuances and settlements and other businesses approved by the CBIRC.

Xinjiang Shihezi BoCom Rural Bank

Xinjiang Shihezi BoCom Rural Bank was set up in May 2011 with a registered capital of RMB150 million and is 51 per cent. owned by the Bank. Its main businesses comprise taking deposits from the general public, short, medium and long-term lending, domestic settlement, bill acceptance and discount, interbank lending and borrowings, credit cards, agency issuances and settlements and other businesses approved by the CBIRC.

Qingdao Laoshan BoCom Rural Bank

Qingdao Laoshan BoCom Rural Bank commenced its operation in September 2012 with a registered capital of RMB150 million and is 51 per cent. owned by the Bank. Its main businesses comprise taking deposits from the general public, short, medium and long-term lending, domestic settlement, bill acceptance and discount, interbank lending and borrowings, credit cards, agency issuances and settlements and other businesses approved by the CBIRC.

CAPITAL

The Group's and the Bank's capital ratios calculated in accordance with the CBIRC Capital Regulations as at 30 June 2020 and 30 September 2020, respectively, are as follows[(1)]:

	As at 30 June 2020		**As at 30 September 2020**	
	Group	**Bank**	**Group**	**Bank**
	(RMB in million)			
Net Core Tier 1 Capital	699,433	605,610	705,076	593,765
Net Tier 1 Capital	801,083	705,480	821,274	708,709
Net Capital	958,388	857,285	979,605	861,491
Core Tier 1 Capital adequacy ratio	10.63	10.12	10.41	9.75
Tier 1 Capital adequacy ratio	12.18	11.79	12.13	11.64
Capital adequacy ratio	14.57	14.33	14.47	14.14

CAPITAL POSITION

The Group's consolidated regulatory capital positions calculated in accordance with the CBIRC Capital Regulations as at 31 December 2017, 2018 and 2019 and as at 30 June 2020 are as follows:

	As at 30 June 2020	As at 31 December 2019	As at 31 December 2018	As at 31 December 2017
	(In millions of RMB)			
Common Equity Tier 1 capital	704,385	695,084	640,373	613,104
— Qualifying common share capital	74,263	74,263	74,263	74,263
— Capital reserve	113,760	113,745	113,692	113,017
— Surplus reserve	211,875	204,696	204,285	197,216
— General reserve	122,176	117,514	114,250	104,458
— Retained earnings	175,134	176,888	129,493	124,952
— Non-controlling interest given recognition in Common Equity Tier 1 capital	1,575	1,608	1,115	746
— Others(2)	5,602	6,370	3,275	(1,548)
Regulatory adjustments for Common Equity Tier 1 capital	4,952	5,595	5,566	3,650
— Goodwill	285	308	315	331
— Other intangible assets (excluding land use right)	1,653	1,630	1,573	1,533
— Cash-flow hedge reserve	(641)	2	24	7
— Investments in common equity of financial institutions being controlled but outside the scope of consolidation	3,655	3,655	3,654	1,779
Net Core Tier 1 Capital	699,433	689,489	634,807	609,454
Additional Tier 1 capital	101,650	100,057	60,025	59,975
— Directly issued qualifying additional Tier 1 instruments including related premium	99,870	99,870	59,876	59,876
— Non-controlling interest given recognition in Additional				
Tier 1 capital	1,780	187	149	99
Net Tier 1 Capital	801,083	789,546	694,832	669,429
Tier 2 capital	157,305	121,710	122,717	120,952
— Directly issued qualifying				
Tier 2 instruments including related premium	127,317	93,942	96,813	103,114
— Provisions in Tier 2	28,029	27,394	25,639	17,639
— Non-controlling interest given recognition in Tier 2 capital	1,959	374	265	199
Net total capital	958,388	911,256	817,549	790,381

Notes:

(1) In accordance with the CBIRC Capital Regulations, China BOCOM Insurance Co., Ltd. and BoCommLife Insurance Company Limited, which are both insurance companies are not included in the consolidation.

(2) At 31 December 2018 and 2019, "Others" were the other comprehensive income. At 31 December 2017, "*Others*" were mainly the foreign currency translation differences.

RISK-WEIGHTED ASSETS

The Group's consolidated risk-weighted assets calculated in accordance with the CBIRC Capital Regulations as at 31 December 2017, 2018 and 2019 and 30 June 2020 are as follows:

	As at 30 June 2020	As at 31 December 2019	As at 31 December 2018	As at 31 December 2017
	(In millions of RMB)			
Credit risk-weighted assets	6,031,651	5,597,853	5,175,603	5,121,995
Covered by internal rating-based approach	—	4,044,363	3,729,906	3,330,917
Uncovered by internal rating-based approach	—	1,553,490	1,445,697	1,791,078
Market risk-weighted assets	196,941	198,048	180,307	187,166
Covered by internal models approach	—	133,962	129,681	159,226
Uncovered by internal models approach	—	64,086	50,626	27,940
Operational risk-weighted assets	348,558	348,558	334,632	337,152
Additional risk-weighted assets due to the application of capital floor	0	0	0	0
Total risk-weighted assets	6,577,150	6,144,459	5,690,542	5,646,313

MARKETING

The Bank develops specific marketing strategies for both corporate and personal banking clients. The Bank's head office organises bank-wide marketing and provides supporting resources for local marketing efforts formulated and coordinated by the Bank's branches. The Bank's sub-branches are responsible for the implementation of local marketing plans.

The Bank has created marketing strategies based on region, customer size and product type. The Bank focuses its advertising spending on television advertising, outdoor billboards, and to a lesser extent, internet, print and radio advertising. Regionally, in addition to continuing to focus on the Yangtze River Delta, Pearl River Delta, and Bohai Rim Economic Zone regions, the Bank pays specific attention to other economic zones and projects, such as Shanghai's "Two Centres" plan to develop into an international financial and shipping centre. The Bank also develops marketing strategies based on customer segmentation. The Bank intends to continue to strengthen branding efforts for the specific products it offers. For example, the Bank will continue to promote its personal banking business service brand of "OTO Fortune" (沃德財富), "OTO Financial Advisor" (沃德理財顧問) and "My Account Manager" (我的管家), and corporate business service brand of "Win to Fortune" (蘊通財富), as well as promote more customised and comprehensive wealth management solutions and product combinations under those brands and gradually position its brand as the "wealth management bank".

INFORMATION TECHNOLOGY

The Bank's information technology systems are integral to the Bank's business operations, including its customer services, transaction processing, risk management and financial management. The Bank believes that the establishment of advanced information technology systems complement its overall business strategies and will greatly improve its operational efficiency and the quality of its customer services as well enhance its risk and financial management capabilities. The Bank has invested and will continue to make profound investments in promoting its information technology systems.

The Bank expects to increasingly leverage information technology to drive its business in the future. In addition to the upgrades and improvements the Bank has made in recent years to its information technology systems, the Bank will continue to upgrade and integrate its information technology systems to facilitate operational efficiency, risk management and business development.

EMPLOYEES

As at 30 June 2020, the Bank had a total of 86,646 domestic and overseas employees, of whom 84,117 employees were based in domestic branches and 2,529 were local employees in its overseas branches. There were 3,257 employees in total working for the Bank's major subsidiaries.

INTELLECTUAL PROPERTY

The Bank conducts business under the brand names and logos of "交通銀行", "太平洋卡", "Bank of Communications" "蘊通財富WINTOFORTUNE", "沃德OTO", "交銀沃德", "BOCOM FORTUNE", "交銀理財" and "得利寶". The Bank has registered, or is in the process of applying for registration or renewal of, these brand names and logos and other related logos in the PRC and Hong Kong. The Bank is also the registered owner of the domain name "www.bankcomm.com".

LEGAL AND REGULATORY PROCEEDINGS

The Bank has made a provision for the outstanding legal proceedings that the Bank was involved in. As at 30 June 2020, the amount relating to the outstanding legal proceedings that the Bank was involved in was RMB3,843 million, including RMB2,419 million as the amount relating to the outstanding legal proceedings that the Bank was involved as the defendant and RMB1,424 million as the amount relating to the outstanding legal proceedings that the Bank was involved as the third party. As most of these legal proceedings have not reached a conclusion as at the date of this Offering Circular, the exact amount of potential damages cannot be accurately predicted. The Bank believes that there is sufficient provision for current and pending litigations and arbitrations against the Bank or its branches. Even if any judgment or award of the said current and pending litigations or arbitrations against the Bank or its branches is adverse to the Bank, the Bank does not anticipate that any such cases (individually or jointly) would have a material adverse impact on the Bank's financial condition or results of operations.

PROPERTIES

The address of the headquarter of the Bank is No.188 Yincheng Zhong Road, Pudong New District, Shanghai, China. As at 30 June 2020, the Bank had 3,025 domestic branches, including 37 provincial branches and 37 branches directly managed by its head office. In addition, as at 30 June 2020, the Bank has set up 22 branches or subsidiaries in Hong Kong, New York, San Francisco, Tokyo, Singapore, Seoul, Frankfurt, Sydney, Macau, Ho Chi Minh City, Taipei, London, Brisbane, Luxembourg, Paris, Rome, Brazil, Melbourne and Prague, and a representative office in Toronto with a total of 68 overseas business outlets.

RISK MANAGEMENT AND INTERNAL CONTROL

The principal types of risk inherent in the Group's business include credit risk, market risk (including interest rate risk and exchange rate risk), liquidity risk, operational risk and reputation risk.

In order to win two battles of pandemic prevention and control and risk management, the Group deepened the reform of credit risk and anti-money laundering management and strengthened asset quality management under such pandemic. In addition, the Group also developed innovative risk management technology tools, reinforced prevention of non-compliance cases and control and improved the ability to withstand risks, ensuring the bottom line of preventing the occurrence of systematic and regional risks.

The Group has focused on enhancing its risk management capabilities in the following respects:

- **Establishment of risk appetite policies**

  The Board of Directors of the Bank established the overall risk appetite of "Stability, Balance, Compliance and Innovation" for the Bank and defined its four dimensional risk tolerance in terms of return, capital, quality and risk rating. The Board of Directors further set specific indicators of risk limits against various risks including credit, market, operation, liquidity, interest rate of banking book, information technology, country (economic entity) and reputation to regularly manage the changes of overall risk.

  The Group adhered to the principles of operating in compliance with laws and regulations and insisted on the prudent risk management. In addition, the Group actively served the real economy, strictly managed different risks and constantly and comprehensively deepened the reform to ensure the bottom line of preventing the occurrence of systematic risks.

- **Strengthened risk management framework**

  The Board of Directors of the Bank assumed the ultimate responsibility and served the highest function of decision-making and monitored the Group's risk management through its Risk Management and Related Party Transaction Control Committee. The Bank's Senior Management established a Risk Management Committee, namely Comprehensive Risk Management Committee and its risk management subcommittees with various professionals and two business review committees namely Credit and Investment Review Committee and High-risk Asset Review Committee. Each provincial branch directly managed by the Head Office, overseas branch, subsidiary and directly operating institution correspondingly established risk management committee accordingly referring to the aforementioned framework. In addition to the plenary meeting of the Comprehensive Risk Management Committee, each provincial branch directly managed by the Head Office also set up the executive meeting of the Comprehensive Risk Management Committee, which served as the main platform for the leader and members of the team to study the prevention and control of systematic and regional risks and decision-making risks on major issues.

  The Group ensured the full execution of risk management requirements through the mechanism of "Leadership and Execution, Supervision and Reporting" between Comprehensive Risk Management Committee and sub-committees and between committees of Head Office and branches, resulting in a unified and coordinated risk management.

- **Promotion of advanced risk management technical tools**

  The Bank actively explored the application of big data, artificial intelligence, cloud computing and graphic computing in the field of risk management, initiated the construction of the Bank's risk data application in ecological system and created a unified risk monitoring system of the Bank. In 2019, through innovative data mining, the ability of information consolidation was strengthened, and the controls of credit risk management were enhanced. The Bank enhanced monitoring of its middle office in relation to market risk, interest rate risk of banking book and liquidity risk, improved the application of operational risk management tools in business management and strengthened real time control over operating risk, fraud risk and money laundering risk through different information systems to continuously improve the effectiveness of risk management.

  The Group established a system in implementation of "Advanced Measurement Approach of Capital Management" covering areas such as policy procedure building, model developing and management, data collection and standardisation, system design and implementation, business management and assessment application, independent verification and audit and professional training. With the approval from regulatory authorities, the Group adopted a primary internal rating-based approach for risk exposures of financial institutions and corporate business, an internal rating-based approach for retail risk exposures, an internal model-based approach for market risk and a standard approach for operational risk to measure capital requirements.

  During the six months ended 30 June 2020, the Group carried forward the construction of risk measurement system and formulated the *Measures for Unified Management of Risk Measurement of Bank of Communication* to strengthen the unified management of risk measurement throughout the Group. The calculation system and application mechanism of risk return index were also established to balance risk and return. The Group continued to optimise the econometric models and management systems of different key risks. The Group consistently monitored and analysed the operation and models, optimised the model and extensively deepened the application of risk measurement results in strategic planning, structural adjustment, business decision, performance appraisal as well as business management.

  In implementing its risk management system, the Group has attempted to balance proactivity with stability, division of duties with organisational efficiency and centralised management with adaptability. The Group has carried out comprehensive risk management measures to enhance allocation of resources, efficiency and asset quality.

BOARD OF DIRECTORS AND ITS RISK MANAGEMENT AND RELATED PARTY TRANSACTIONS CONTROL COMMITTEE

The Board of the Bank assumed the ultimate responsibility and served the highest function of decision-making and monitored the Group's risk management through its risk management and related party transactions control committee (the "**Risk Management and Related Party Transaction Control Committee**"). The Bank's Senior Management established a Risk Management Committee, namely Comprehensive Risk Management Committee and its risk management subcommittees with various professionals and two business review committees namely Credit and Investment Review Committee and High-risk Asset Review Committee.

The Risk Management and Related Party Transactions Control Committee of the Board of the Bank is primarily responsible for supervising the risk management of the Bank, assessing risks of the Bank and the effectiveness of the Bank's risk management policies, and making recommendations to the Board regarding the Bank's risk management and internal control strategies and policies. The audit committee of the Bank is responsible for proposing the appointment, change or removal of the Bank's auditors, overseeing the Bank's internal auditing system and its implementation, acting as the communication channel between the Bank's internal and external auditors, reviewing the Bank's financial information and related disclosures, overseeing the Bank's accounting policies, financial condition and financial reporting procedures, and evaluating the Bank's compliance with, and adequacy of, the Bank's internal controls. As at the date of this Offering Circular, the audit committee of the Bank consisted of seven members, Ms. Li Xiaohui, Mr. He Zhaobin, Mr. Li Longcheng, Mr. Chen Junkui, Mr. Jason Yeung Chi Wai, Mr. Raymond Woo Chin Wan and Mr. Zhang Xiangdong, with Ms. Li Xiaohui acting as chairwoman of the audit committee.

Board of Supervisors

The board of supervisors of the Bank is responsible for supervising the Board of the Bank and senior management with regard to risk management and internal controls and providing suggestions and proposals for improvement of risk management and internal controls. See "Management of the Bank".

Senior Management, Comprehensive Risk Management Committee and the Chief Risk Officer

The Comprehensive Risk Management Committee of the Bank primarily formulates the Bank's risk management goals, policies and implementation procedures within the framework of the risk management strategies approved by the Board of the Bank, assesses the Bank's bank-wide risk management condition, and reviews and decides on any material violations of the Bank's risk management policies. Under the Comprehensive Risk Management Committee, there are four professional risk management sub-committees, namely Credit Risk Management Committee, Market and Liquidity Risk Management Committee, Operational Risk Management Committee and Compliance (Anti-Money Laundering) Committee. Two business review committees, namely Credit and Investment Review Committee and High-risk Asset Review Committee were also established. These sub-committees and review committees are under the leadership of, and report to, the Comprehensive Risk Management Committee, and are responsible for monitoring and guiding the bank-wide implementation of risk management work.

The Comprehensive Risk Management Committee of the Bank is chaired by president of the Bank with other senior officers of the Bank serving as deputy chairman. The president, executive vice president and chief risk officer of the Bank are responsible for promoting the various tasks of risk management according to their division of work.

The Credit Risk Management Committee, Market and Liquidity Risk Management Committee, Operational Risk Management Committee and Compliance (Anti-Money Laundering) Committee formulate, review and supervise the enforcement of the relevant risk management systems, procedures and operational rules which are consistent with the Bank's strategic goals and are applicable to the whole bank, based on the strategies and overall policy determined by the Board with regard to credit risks, market and liquidity risks, operational risks. Also, they are responsible for reviewing specific risk-related matters.

The Credit and Investment Review Committee of the Bank is responsible for inspecting the credit of normal corporate credit customers and the customers of the financial industry. After a collective review, the credit/ non-credit review committee of the Bank provides recommendations to the authorised persons or bodies in the Bank.

The High-risk Asset Review Committee of the Bank is responsible for reviewing risk management plans for problematic credit customers. It provides opinions to persons who have the right to approve such plans by way of collective deliberations of matters including management and disposal of risk assets.

Risk Management Department, Asset Preservation Department and Audit Supervisory Bureau

The risk management department and asset preservation department of the Bank are in charge of comprehensive risk management. Generally, the departments are responsible for implementing the risk strategies, preferences and policies set by the Board and senior management of the Bank, leading the development of a comprehensive risk management plan and evaluation of the implementation of the Bank's risk management system, accepting risk management reports from all operational units and lines of business, evaluating the risk profiles of all the Bank's businesses and assets and consolidating, reporting its findings to management and externally, as well as developing asset preservation policies for the Bank.

The audit supervisory bureau, under the leadership of the board of the Bank, is responsible for supervising and assessing the Bank's risk management and internal controls and auditing the Bank's business activities. The audit supervisory bureau determines the frequency and scope of the inspection and assessment of the Bank's operations, risk management and internal controls, and conducts independent inspections or assessments on any potential material risk or risk management or internal control issue in any of the business departments of the Bank, in particular the inspection and assessment of the following matters:

- compliance with all applicable laws and regulations;
- compliance with, and effectiveness of, the Bank's internal policies or guidelines;
- effectiveness of the Bank's risk management (including the Bank's credit management) and accounting systems;
- the security of the Bank's information technology system; and
- the soundness, applicability and effectiveness of the Bank's internal controls and procedures.

The audit supervisory bureau of the Bank is also responsible for following up on any issues detected, overseeing remedial actions and enhancing risk prevention.

The audit supervisory bureau of the Bank conducts comprehensive examinations of the Bank's financial and operational performance, manages key risks including credit risk, accounting matters, technology applications and internal controls, including those of the branches, sub-branches, controlling subsidiaries and other affiliated entities of the Bank, once a year. In addition, it conducts special examinations in response to important matters or business areas. Examinations may be conducted both on-site and off-site.

The Bank has established a two-tiered auditing system comprising of the audit supervisory bureau and sub-bureau of audit supervisors in Beijing, Shanghai, Guangzhou, Wuhan, Chengdu and Shenyang. This auditing system is generally independent of the other departments and the lower level auditing departments are under the management of upper level auditing departments.

The Two-way Communication System in the Bank's Risk Management Structure

The Bank has established a "main centralised platform-small centralised platform" risk management system for the purpose of achieving the Bank's "comprehensive, intensive, matrix-based" risk management objectives.

The head office risk management department of the Bank is the "main centralised platform", and the "small centralised platform" includes: different departments or positions that are important to risk management in the operating lines in the Bank's head office; risk management departments in the Bank's branches (including overseas branches) and risk management departments in the subsidiaries or affiliated institutions of the Bank.

The head office risk management department of the Bank establishes daily communication and connection to the "small centralised platform" in each of the head office business management departments and domestic and foreign branches and subsidiaries through a vertical and horizontal two-way matrix-based reporting system. Within this system, the head office risk management department establishes bank-wide risk management policies, implements relevant quotas, appraises the operation and function, determines strategies to address bank-wide risk management issues, organises, coordinates, and monitors the progress of the operation of "small centralised platform", and submits the group risk appraisal report to senior management, the Board and its Risk Management and Related Party Transactions Control Committee).

Each of the "small centralised platforms" of the Bank is responsible for its own risk monitoring, supervising the business operations of its own operating unit, branch or subsidiary, appraising the performance of its own business operating units, regions and departments, implementing quotas and risk management policies and guidelines from the head office, and reporting to the responsible business operation person and the group's management "main centralised platform".

Credit Risk Management

Credit risk is one of the major risks encountered by the Group. The Group adhered to decisions and deployments of the Central Committee of the Communist Party of China and the State Council and responded to state policies and market fluctuations. The Group also upgraded the outline of credit granting and risk policy and investment guidelines in selection of industry to implement the principle of "one policy for one bank". The Group established the credit risk management system featured with "Full Coverage, Full Process, Specialisation, and Accountability", optimised the credit authorisation process and improved the approval efficiency. Control over key areas and sensitive industries such as credit card, overcapacity, real estate, cross-border business and implicit government debts was strengthened by means of total volume control, name list and quota limits. In addition, the Group also intensified the regional risk control.

The Group strengthened asset quality management during the pandemic by implementing the relief policies in compliance with relevant requirements, strengthening management of loans approaching due dates and accurately implementing loan classification. The Group also established a monthly dynamic inspection mechanism to identify customers with potential risk and substantial risk exposed by the pandemic at early stage. The Group adopted a multi-level, category-specific approach by customers to ensure responsibilities were fulfilled, and disposal and mitigation measures were taken beforehand.

The Group put efforts to mitigate risks. During the six months ended 30 June 2020, the disposal of total amount of non-performing loans of the Group was RMB34.323 billion, including the write-off loans amounting to RMB23.79 billion. The application of market-oriented debt-to-equity swap successfully dissolved the material risk project of Dandong Port and Qinghai Salt Lake Industry Co., Ltd.

According to the regulatory requirements stated in the *Guidance for the Risk-based Loan Categorisation* issued by the CBIRC, the Group classified credit assets into five categories based on their risk level, namely pass, special mention, sub-standard, doubtful and loss. The last three categories are regarded as non-performing loans. The nature of the categories refers to the possibility of timely full repayment of the principal and interest of credit assets. In terms of corporate credit alike assets, based on core regulatory definition with reference to internal ratings and provisions for each loan, the Bank performed risk classification in a prudent manner. For retail credit alike assets (including credit cards), the Bank adopted a loan classification system of five categories, a method which considered both the ageing schedule of overdue loans and the guarantees.

Investment Policies and Guidelines

Under the Bank's current risk management system, the credit management department at its head office proposes credit policies and risk management systems on the basis of China's relevant economic and financial policies and the Bank's own guidelines and strategies for development. If these proposed policies and risk management systems are material, they are required to be reviewed and approved by the credit risk management committee of the Bank. Otherwise, they are required to be reviewed and approved by the president or the relevant executive vice president or the chief officer of the credit management department of the Bank, depending on subject matter and materiality of the relevant policies. The retail credit management department (small enterprise credit management department) at the Bank's head office proposes credit policies and guidelines for the Bank's retail credit customers, which are subject to the review and approval by the president or the relevant executive vice president of the Bank. After these policies and guidelines have been approved, the branches of the Bank are required to implement them within their respective authority granted by the Bank's head office. These policies and guidelines are reviewed and revised as necessary to reflect policy guidelines, rules or regulations issued by the PBOC or the CBIRC, changes in the macroeconomic environment or trends in different industries, and other relevant factors. These credit policies and procedures generally set forth, among other things, the types of industries, customers and businesses for which credit will be extended, procedures and guidelines for assessing the credit risk of individual and group clients, credit approval procedures and record maintenance requirements.

Loan Approval and Monitoring Procedures

The Bank's loan approval procedures involve the evaluation and analysis of loan applications to ensure that the Bank has a thorough understanding of the borrower, the purpose and structure of the loan and the borrower's sources of liquidity, financial condition, cash flow position and repayment ability. To avoid conflicts of interest, the Bank endeavours to maintain a separation of duties and responsibilities in the loan approval and monitoring process of the Bank, which can be primarily divided into three functional steps: marketing and pre-approval investigation; approval of loan applications; and loan monitoring and management.

The Bank monitors corporate loans at the individual and portfolio level at various levels of the bank. The client manager in the credit operation department of the Bank or the asset preservation and clearance officer in the asset preservation department of the Bank assumes the primary responsibility for post-loan monitoring, undertakes most of post-loan monitoring work, and is also responsible for preparing monitoring reports for the loans and submitting the same for review and approval within the required timeframe. The risk management department is the department responsible for post-loan management at a bank-wide level. And the corporate business department, credit management department and the asset preservation department jointly conduct post-loan monitoring work in a coordinated manner in accordance with their respective areas of duties.

Emphasis on risk control in key areas

The Bank carried out the inspection of over-production industry, maintained the targeted customers, implemented specific risk management controls, monitored bank bill business risk seasonally, recognised suspicious customers that issued invoice by data system, decreased the new cash advance rate, inspected credit default risk and formed the debt list of potential risk quarterly, utilised risk management of bond investment and annuity credit debt for the Bank and each department. The Bank also started the inspection and monitoring in corporate customer's cluster risk, new business risks of small entrepreneur and Internet and illegal fund raising, thus correspondingly enlisting potential customers to implement flexible management and raising the accuracy of risk management.

Strengthened post-loan management and post-investment management

The Bank formed and completed systems and measures, formed supporting framework of post-loan and post-investment management, continuously completed various mechanisms and perfected procedure tools.

Disposal of high risks loans

The Bank focused on disposal of high risk loans and credit mitigation on high risk loans and proactively made use of different disposal strategies to resolve the risk timely. For the six months ended 30 June 2020, the total amount of disposed non-performing loans was RMB34.3 billion, including write-off loans of RMB23.79 billion.

According to the regulatory requirements stated in Guidance for the Risk-based Loan Categorisation issued by the CBIRC, the Bank classified credit assets into five categories (pass, special mention, sub-standard, doubtful and loss) based on their risk level, which refers to the possibility of timely and full repayment of the principal and interest of credit assets, in which the last three categories are regarded as non-performing loans. In relation to corporate credit assets, the Bank specified the risk attributes and measurements of the fore-mentioned five categories, with reference to internal ratings and provisions for each loan. All of these ensured that various factors impacting the quality of credit assets were considered by the Bank, so that the Bank could perform risk classification in a prudent manner. For retail credit assets, including credit cards, the Bank adopted a loan classification system, which considered both the aging schedule of overdue loans and the types of guarantees provided. As at 31 December 2017, 2018 and 2019 and 30 June 2020, the breakdown of the Bank's five categories of loan classification stipulated by the CBIRC is as follows:

	As at 30 June 2020		As at 31 December 2019		As at 31 December 2018		As at 31 December 2017	
	Balance	Proportion (%)	Balance	Proportion (%)	Balance	Proportion (%)	Balance	Proportion (%)
	(in millions of RMB unless otherwise stated)							
Categories								
Pass loan	5,531,412	96.54	5,111,715	96.37	4,662,605	96.06	4,378,840	95.62
Special mention loan	101,809	1.78	114,517	2.16	119,111	2.45	131,910	2.88
Total performing loan balance	5,633,221	98.32	5,226,232	98.53	4,781,716	98.51	4,510,750	98.50
Sub-standard loan	42,800	0.74	16,963	0.32	13,711	0.28	18,723	0.41
Doubtful loan	36,418	0.64	42,508	0.80	38,456	0.79	24,865	0.54
Loan loss	17,074	0.30	18,572	0.35	20,345	0.42	24,918	0.55
Total non-performing loan balance	96,292	1.68	78,043	1.47	72,512	1.49	68,506	1.50
Total	5,729,513	100.00	5,304,275	100.00	4,854,228	100.00	4,579,256	100.00

As at 31 December 2017, 2018 and 2019 and 30 June 2020, the breakdown of the Bank's migration rate stipulated by the CBIRC is as follows:[1]

	30 June 2020	31 December 2019	31 December 2018	31 December 2017
	(%)			
Loan migration rates				
Pass loan	1.14	1.71	1.85	2.09
Special mention loan	30.28	29.76	30.01	21.62
Sub-standard loan	13.80	42.76	88.62	53.59
Doubtful loan	6.48	10.92	15.36	15.36

Note:

(1) Data calculated pursuant to the Notice on the Distribution of the Regulatory Indicator and Calculation Formula for off Field Investigation issued by the CBIRC.

As at 30 June 2020, with the impact of economic downturn, the Bank is still under pressure of the risk management and control environment.

Market Risk Management

Market risk refers to the risk of losses of on-and-off balance sheet businesses of the Group arising from unfavourable changes in interest rate, exchange rate, commodity price and share price. Interest rate risk and exchange rate risk are the major market risks encountered by the Group.

Based on the risk appetite of the Board of Directors, the Group proactively identified, measured, monitored, controlled and reported its market risk by methods such as quota management, risk hedging and risk transfer. As a result, the Group was able to manage its market risk exposure to an acceptable level and maximise its risk-adjusted profits.

The exchange rate risk and general interest rate risk of trading book were assessed with the use of the internal model-based approach by the Group, while the market risk not covered by the internal model-based approach was assessed under the standardised approach. In terms of the internal model-based approach, historical simulation method was adopted to calculate value at risk ("VaR") and stressed value at risk ("SVaR"), which had a historical observation period of 1 year, a holding period of 10 working days and a 99 per cent. confidence interval. Daily capital transaction positions of the Group and the most updated market data were obtained to perform position valuation and sensitivity analysis in a timely manner. In addition, using the historical simulation method, the Group measured VaR of market risks on a daily basis from different perspectives, including risk factors and investment portfolios and products and performed reverse testing to verify the accuracy of the VaR model. The results obtained using the internal model-based approach were also applied to capital measurement, quota monitoring and management, performance assessment and risk monitoring and analysis.

The Group continued to improve the market risk management system, strengthened the risk management of overseas branches, enhanced exposure monitoring and risk warning in the event of severe financial market volatility, strictly controlled the market risk exposure limits, optimised the market risk management information system and promoted the construction of a large middle ground system of market risks. The Group also optimised market risk management models and configurations, closely monitored the risk management of domestic and overseas markets, performed quantitative testing of market risk and thoroughly analysed the possible challenges in new trends of market risk regulation.

Interest Rate Risk Management

Interest rate risk is the risk that the Bank's interest income or the value of the Bank's assets may suffer losses due to the changes in interest rates. Interest rate risk mainly arises from asset and liability interest rate re-fixing, tenor mismatch as well as adjustments in the PBOC's interest rate policies. The Bank's primary sources of interest rate risk are mismatches in the maturities or re-pricing periods of these assets and liabilities and fluctuations in interest rates. In addition, different pricing bases for different products may also lead to interest rate risk for the Bank's assets and liabilities within the same re-pricing period.

In respect of interest risk, the Bank uses methods including gap analysis and net interest income simulation to monitor, conduct pricing management and asset-liability adjustment to manage and control such risk in order to maximise profits while controlling the risks.

The Bank has internally developed an assets/liabilities management information system to perform quantitative analyses and measurement of its interest rate risk exposures relating to its assets and liabilities. In addition, the Bank utilises the data provided by this system to perform stress tests, which provide the Bank with guidance in adjusting the maturities and durations of its asset and liability portfolio.

The Bank uses gap analysis to monitor the Bank's interest rate-sensitive assets and liabilities, refix and tenor gaps on a regular basis, take initiatives to adjust the proportions of floating interest rate and fixed interest rate interest-bearing assets, amend the interest rate reset clause in loan contracts and use derivatives including interest rate swaps to manage interest rate risks.

The Bank uses gap analysis, net interest income, simulation and stress testing to measure its exposure to interest rate risk. Gap analysis measures the difference between the amount of interest-earning assets and interest-bearing liabilities that mature or must be re-priced within certain periods. Gap analysis provides the Bank with a static view of the maturity and re-pricing characteristics of its statement of financial position. The Bank conducts its gap analysis by classifying all assets, liabilities and off-balance sheet items into time bands according to contracted maturities or anticipated re-pricing dates. The difference in the amount of assets, liabilities and off-balance sheet items maturing or being re-priced within each time band provides the Bank with an indication of the extent to which the Bank is exposed to the risk of potential changes in the margins on new or re-priced assets and liabilities. The Bank conducts such gap analysis at least once a month.

The Bank manages its assets and liabilities by controlling the interest rate gaps for successive time bands. The Bank estimates future net interest income through simulated interest rate scenarios to ensure that the interest income variations are within the established range.

During the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020, the Bank closely monitored the trend of local currency and foreign currency interest rates, elaborated risk limits and enhanced portfolio operations and credit limits monitoring. By proper adjustment of its loan pricing strategy, the Bank strengthened its management of loan price negotiation to maximise profits while controlling the risks.

The impact of net interest income refers to standardised framework weighting factors in the annex of "principles for the management and supervision of interest rate risk" (July 2004) issued by the Basel Committee. Such weighting factors are based on the assumption that after an interest rate reset date, the Bank continues to receive net interest income calculated based on the reset rate of return.

The Bank continues to develop risk management systems to assist it in identifying, measuring, monitoring and controlling interest rate risk. The Bank also implemented a trading book interest rate risk management guideline with an overall framework to ascertain fair value and trading account interest rate risk.

The Bank primarily manages its foreign currency, assets and liabilities through the following measures: centralising the investment of the excess foreign currency-denominated funds and investing a significant portion of such funds in short term financing, including interbank market notes and short-term debt, managing the ratio of the Bank's floating rate foreign currency-denominated investments and entering into interest rate swaps.

Exchange Rate Risk Management

Exchange rate risks mainly arise from transaction risks of the Group's proprietary and agency foreign exchange trading and structure risks of maintaining certain foreign exchange position and overseas operations. The Group provides foreign currency deposits, foreign currency loans and foreign currency trading services to its customers. The Group's trading activities in the foreign currency markets and other general banking activities expose it to exchange rate risk. The Group has established foreign exchange rate risk management policies which clearly set out the exchange rate risk management departments' functions allocation, scope of work, risk identification, measurement and control and other specific measures. According to its risk tolerance and management level, by improving the management support for trading systems and information enforcement systems, the Group sets and controls the compression of the relevant limits and restricts foreign exchange exposure to the extent permitted by the relevant policies. The Group also takes initiatives to adjust the composition of its foreign currency assets to match the currency structure of its assets and liabilities, and properly uses methods including exchange rate financial derivatives and hedges to control exchange rate risk. In particular, the Group mitigates exchange rate risk by establishing exposure limits and stop-loss limits.

The Group has established a risk management system under which a series of indicators, including foreign exchange exposure limits, stop-loss limits and other trading parameters, are clearly defined. The Group has also implemented the KRM Market Risk Management System, which provides stress testing capabilities for analysing through the simulation of potential impact from market price movements or other unusual movements. The Group seeks to match the currency structure of its assets and liabilities by actively adjusting the composition of its foreign currency-denominated assets, and hedging against exchange rate risk by utilising appropriate financial derivative instruments.

Liquidity Risk Management

The governance structure of liquidity risk management of the Group consisted of a decision-making body comprised the Board of Directors and its Special Committees and Senior Management, a supervisory body comprised the Board of Supervisors and Audit Supervision Bureau and an executive body comprised Financial Management Department, Market Department, Risk Management Department, Operations and Channel Management Department, branches, subsidiaries and Head Office's departments in charge of each business.

The Group's liquidity risk management goal was to establish and improve the liquidity risk management, effectively identify, measure, monitor and manage the liquidity risk at legal person level and group level, subsidiaries, branches and business lines to ensure that the liquidity needs can be timely satisfied at a reasonable cost.

The Group annually determined liquidity risk appetite according to business strategies, business characteristics, financial strength, financing abilities, overall risk appetite and market influence. According to the liquidity risk appetite, the Group formulated written liquidity risk management strategies, policies and procedures. The strategies and policies of liquidity risk management covered all on-and off-balance sheet businesses, as well as all business departments, branches and subsidiaries that might have a significant impact on liquidity risk at home and abroad and included liquidity risk management under normal and stressful conditions.

The Group implemented the *Rules on Liquidity Risk Management of Commercial Group* issued by the CBIRC. Various businesses of the Group were developed in a coordinative manner under a stable liquidity risk condition with satisfactory liquidity indicators under regulatory requirements of liquidity ratio, liquidity coverage ratio, net stable funding ratio and liquidity matching ratio. In accordance with regulatory policy requirements and the need for deepening reform across the Group, the Group further strengthened on-and off-balance sheet liquidity risk management. By forecasting in advance and performing cash flow calculation and analysis, the Group reinforced the coordination and integration to improve financing management and high-quality liquid assets (HQLA) management, continuously monitored to ensure daytime liquidity security and liquidity limit controllable and launched regular stress testing for liquidity risk. The results of stress tests showed that liquidity risk was in a controllable range under various pressures scenarios.

Operational Risk Management

The Group developed comprehensive operational risk management system dealing with the nature, scale and product complexity of the Group's businesses. The Group also standardised the procedures of operational risk controls, control assessment, lost data collection, key risk indicator monitoring and operational risk management. The Group also strengthened operational risk management, improved the operational risk management and risk assessment mechanism, carried out operational control assessment on key processes and established an integrated business continuity management at home and abroad to extend outsourcing risk management mechanism to the whole Group.

The Group improved operational risk management system, amended and improved the basic system to concrete management foundation. Focusing on business operational risk control and recognition, the Group strengthened the application of output of assessment and detection using the operational risk management tools. Moreover, the Group set up and improved tracking system and helped to continuously concrete the internal management foundation. Additionally, the Group standardised the business outsourcing management and strengthened inspection and assessment in outsourcing business of information technology risk. The Group also started specialised risk assessments for overseas branches (and subsidiaries) information system and internet information security controls to strengthen the risk management in the field of information technology. Furthermore, the Group amended the business continuing management policy, improved comprehensive emergency drills of city disasters, analysed the impact of important businesses, sorted out and improved the key business contingency plans and business continuing plans.

Legal Compliance and Anti-Money Laundering

The Group attached great importance to legal compliance risk management. The Board of Directors, Senior Management and the subordinate special committees discussed and approved important legal compliance matters and deployed and promoted key legal compliance activities. The Group strengthened the risk management and control of major sectors, critical areas and important links, promoted the development of long-term mechanisms for overseas compliance management, boosted the construction of compliance culture and enhanced the legal compliance guarantee for operation and management.

The Group further intensified the anti-money laundering (sanctions compliance) management, improved the anti-money laundering management structure of the Head Office, optimised the anti-money laundering process, strengthened the integration of anti-money laundering management and businesses, improved the anti-money laundering data governance and advocated the establishment of anti-money laundering system.

Cross-industry, Cross-border and Country Risk Management

The Group set up the risk management system across industries and boarders characterised by "Centralised Management, Clear Task Allocation, Complete and Adequate System Tools, IT Support, Risk Quantification, and Consolidation of Substantially Controlled Entities". With such system, the Group promoted the risk management of subsidiaries and overseas institutions with consideration of the Group's requirements and the specific requirements from local authorities in order to prevent additional risk from operation across industries and boarders.

The Group strengthened risk management across industries and borders. In view of the uncertainty caused by the spread of the pandemic overseas, the Group intensified the prevention and control of the pandemic in overseas institutions to ensure stable operation of business. In addition, the Group also strengthened management of key areas such as liquidity, business continuity, asset quality and pandemic prevention for staff in overseas institutions. The Group enhanced the consolidation management, issued the Measures on Consolidation Management of Bank of Communications (2020), continuously optimised consolidation management system, provided better guidance and evaluated subsidiaries' consolidation management. The Group implemented country risk management, optimised country risk limit plans, regularly monitored country risk exposures and timely carried out country risk rating, assessment and indication.

Overseas Branches and Subsidiaries

The Group's overseas branches' credit risk management, market risk management and operational risk management are part of the Group's overall risk management system. The head office risk management department and asset preservation department of the Group are primarily responsible for supervising the risk management of overseas branches and subsidiaries. The head office risk management department and asset preservation department of the Group assess the risk management performed by overseas branches and subsidiaries and attends their risk management meetings from time to time.

Reputation Risk

The Group established and improved the reputation risk management framework. Negative comments from various stakeholders regarding the Group's operation, management, any other behaviours or external events were well managed. Situations regarding reputation risk were appropriately handled.

The Group continued to improve reputation risk management system and mechanism, intensified the identification, warning, assessment and monitoring of reputation risk and promptly adjusted corresponding strategy and measures. During the six months ended 30 June 2020, negative public opinions were actively handled and reputational risk was under control. No event occurred regarding significant reputational risk.

Management of Large Exposure Risk

The Group thoroughly implemented the requirements of the *Administrative Measures for the Large Exposures of Commercial Banks* issued by the CBIRC, emphasised the importance on the management of large exposure risk, proactively promoted the construction of management system and optimised management process and organisation structure. The Group differentiated the management requirements and responsibilities for large exposure of different customers. Such differentiations helped to improve the Group's ability to prevent systematic and regional risks. As at 30 June 2020, the Group's large exposure risk indicators met the regulatory requirements.

New Products and New Businesses

The Group applies its risk management and asset preservation system to its new products and businesses. The risk management department of the Group assesses and monitors the development, sales, operations and other processes associated with the Group's new products and businesses for the purpose of controlling the risks associated with these products and businesses.

DESCRIPTION OF THE BANK'S ASSETS AND LIABILITIES

ASSETS

The Bank's total assets as at 30 June 2020 were RMB10,669,932 million, which represents an increase of 7.72 per cent. from RMB9,905,600 million as at 31 December 2019. The Bank's total assets as at 31 December 2019 were RMB9,905,600 million, which represents an increase of 3.93 per cent. from RMB9,531,171 million as at 31 December 2018. The Bank's total assets as at 31 December 2018 were RMB9,531,171 million, which represents an increase of 5.45 per cent. from RMB9,038,254 million as at 31 December 2017. The four principal components of the Bank's assets consist of cash and balances with central banks, due from other banks and financial institutions, derivative financial assets and loans and advances to customers. As at 30 June 2020, the balance of the Bank's loans and advances to customers, financial investment, cash and balances with central banks, amounts due from banks and other financial institutions, and others constituted 52.51 per cent., 30.43 per cent., 7.51 per cent., 6.50 per cent. and 3.05 per cent., respectively, of its total assets. The following table sets forth the balances of significant components of the Bank's total assets as at the dates indicated:

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	(RMB in million)			
Cash and balances with central banks	938,571	840,171	760,185	801,146
Due from and placements with banks and other financial institutions	782,468	848,067	648,488	693,101
Derivative financial assets	34,007	30,730	20,937	28,130
Loans and advances to customers	4,473,255	4,742,372	5,183,653	5,602,356
Financial investments at fair value through profit or loss	227,030	376,386	406,498	519,544
Financial investments at amortised cost	—	2,000,505	1,929,689	1,940,765
Financial investments at fair value through other comprehensive income	—	445,018	669,656	786,837
Financial investments — available-for-sale	402,138	—	—	—
Financial investments — loans and receivables	387,733	—	—	—
Financial investments — held-to-maturity	1,511,375	—	—	—
Investments in associates and joint venture	3,357	3,653	4,600	4,745
Property and equipment	132,492	153,286	171,179	174,746
Deferred income tax assets	16,456	21,975	24,065	26,045
Other assets(1)	129,372	69,008	86,650	92,517
Total assets	9,038,254	9,531,171	9,905,600	10,669,932

Note:

(1) Other assets consist of interest receivable, settlement accounts, other receivables and prepayments, investment properties, land use rights and others, intangible assets, long-term deferred expenses, precious metal, foreclosed assets, goodwill, refundable deposits, unsettled assets etc.

As at 30 June 2020, the Bank's capital position is among the best in the industry, its Core Tier 1 Capital Adequacy Ratio, Tier 1 capital adequacy ratio and capital adequacy ratio being 10.63 per cent., 12.18 per cent. and 14.57 per cent., respectively.

LOANS AND ADVANCES TO CUSTOMERS

As at 30 June 2020, the Bank's corporate loans and personal banking loans represented approximately 64.03 per cent. and 31.93 per cent., respectively, of its total gross loans and advances to customers. While the Bank's corporate banking business remains its core banking business, the Bank believes that the PRC personal banking sector continues to offer significant growth opportunities. As part of the Bank's growth strategy, the Bank has taken, and will continue to take, various initiatives to enhance its personal banking business. As at 30 June 2020, the Bank's personal loans reached RMB1,829.406 million, representing an increase of RMB74,641 million or 4.25 per cent. compared to 31 December 2019.

Unless otherwise stated, all amounts of corporate loans, individual loans and discounted bills set forth in this section represent amounts before impairment allowance.

The Bank's loans (after allowance for impaired losses) represent a significant portion of its assets and accounted for 52.51 per cent. of its total assets as at 30 June 2020. The balance of the Bank's loans and advances to customers net of allowance for impairment losses increased by 8.08 per cent. to RMB5,602,356 million as at 30 June 2020 from RMB5,183,653 million as at 31 December 2019.

Corporate Loan Concentration by Industry

The Bank's corporate loan portfolio represents a broad range of industries, but is concentrated in particular in the transportation, storage and postal services, manufacturing, leasing and commercial services, water conservancy, environmental and other public services and real estate sectors. The following table sets forth the Bank's corporate loan portfolio by industry and as a percentage of its loan portfolio as at the dates indicated:

	As at							
	30 June 2020		31 December 2019		31 December 2018		31 December 2017	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(RMB in million, except percentages)							
Corporate loans	3,668,822	64.03	3,346,476	63.09	3,061,095	63.08	3,030,416	66.18
Transportation, storage and postal services	677,212	11.82	637,943	12.03	573,151	11.82	576,156	18.18
Manufacturing	695,092	12.12	601,143	11.33	581,412	11.98	580,906	18.33
Leasing and commercial services	539,270	9.41	508,863	9.59	413,716	8.52	358,956	11.33
Water conservancy, environmental and other public services	323,342	5.64	284,797	5.37	263,235	5.42	265,073	8.36
Real estate	320,728	5.60	264,495	4.99	216,536	4.46	189,295	5.97
Wholesale and retail	222,936	3.89	221,381	4.17	246,706	5.08	283,654	8.95
Production and supply of electric power, heat, gas and water	218,600	3.82	215,642	4.07	186,117	3.83	180,471	5.69
Construction	157,219	2.74	135,998	2.56	114,577	2.36	112,544	3.55
Mining	122,389	2.14	117,555	2.22	119,091	2.45	114,010	3.60
Finance sector	113,221	1.98	107,865	2.03	98,342	2.03	118,533	3.74
Education, science, culture and public health	109,823	1.92	96,875	1.83	89,436	1.84	82,780	2.61
Others	94,468	1.65	93,314	1.76	96,428	1.99	106,278	3.35
Accommodation and catering	34,041	0.59	32,259	0.61	34,486	0.71	35,531	1.12
Information transmission, software and information technology services	40,481	0.71	28,346	0.53	28,682	0.59	26,229	0.83
Discounted bills	231,285	4.04	203,034	3.83	156,686	3.23	138,958	3.03
Individual loans	1,829,406	31.93	1,754,765	33.08	1,635,627	33.69	1,409,882	30.79
Total loans	5,729,513	100.00	5,304,275	100.00	4,854,228	100.00	4,579,256	100.00

In accordance with the disclosure standards in the published reviewed consolidated financial statements as at and for the six months ended 30 June 2020, loans to the transportation, storage and postal services, manufacturing, leasing and commercial services, water conservancy, environmental and other public services and real estate generally account for a significant portion of the Bank's corporate loans. In the aggregate, they accounted for approximately 64.03 per cent. of the Bank's total loans as at 30 June 2020. As at 30 June 2020, the total amount of the Bank's outstanding corporate loans increased by RMB322,346 million or 9.63 per cent. from RMB3,346,476 million as at 31 December 2019 to RMB3,668,822 million. The Bank offers bill discounting by providing its customers with cash for their bills of exchange accepted by other financial institutions as well as corporations. Discounted bills represented 3.03 per cent., 3.23 per cent., 3.83 per cent. and 4.04 per cent. of the Bank's gross loans and advances balance as at 31 December 2017, 2018 and 2019 and 30 June 2020, respectively. Discounted bills increased by 13.91 per cent. from RMB203,034 million as at 31 December 2019 to RMB231,285 million as at 30 June 2020.

Personal Banking Loan Concentration by Product

The Bank's personal finance loan portfolio consists primarily of mortgage loans, credit card advances and others. The following table sets forth the Bank's personal finance loan portfolio by products and as a percentage of its personal finance loan portfolio as at the dates indicated:

	As at							
	30 June 2020		31 December 2019		31 December 2018		31 December 2017	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(RMB in million, except percentages)							
Mortgage	1,196,808	65.42	1,135,428	64.70	1,007,528	61.60	897,264	63.64
Credit card	445,266	24.34	467,387	26.64	505,190	30.89	399,004	28.30
Personal business loans	87,420	4.78	55,560	3.17	31,871	1.95	—	—
Others[(1)]	99,912	5.46	96,390	5.49	91,038	5.56	113,614	8.06
Total individual loans	1,829,406	100.00	1,754,765	100.00	1,635,627	100.00	1,409,882	100.00

Note:

(1) "Others" include, among others, medium-term and long-term working capital loans, short-term working capital loans, car loans, education loans, durable consumer goods loans, refurbishing loans, pledge of certificates of deposit to small-sized loans and small-sized secured loans to the unemployed. The "Others" figure as at 31 December 2017 also includes personal business loans.

The total amount of the Bank's outstanding individual loans increased by RMB74,641 million or 4.3 per cent. from RMB1,754,765 million as at 31 December 2019 to RMB1,829,406 million as at 30 June 2020. The Bank's individual loans represented 33.08 per cent. and 31.93 per cent. of its gross loans and advances as at 31 December 2019 and 30 June 2020, respectively. This increase in individual loans was primarily due to improving macroeconomic conditions in the PRC as well as continued increases in individual disposable income, which increased demand for financial products.

Mortgage loans represented 65.42 per cent. of the Bank's individual loans as at 30 June 2020. The Bank's mortgage loans increased 5.41 per cent. to RMB1,196,808 million as at 30 June 2020 from RMB1,135,428 million as at 31 December 2019. The Bank has expanded its mortgage loan business while controlling risks by focusing on economically developed regions and well-regulated markets.

As at 31 December 2017, 2018 and 2019 and 30 June 2020, the Bank's credit card advances were RMB399,004 million, RMB505,190 million, RMB467,387 million and RMB445,266 million, respectively, which represented 28.30 per cent., 30.89 per cent., 26.64 per cent. and 24.34 per cent., respectively, of its total individual loans. As at 31 December 2019, the Bank had more than 120 million credit cards issued to customers, with the number of new-issued cards in 2019 amounted to 6,516.8 thousand.

The increases in the amounts of the Bank's individual loans generally over 2019 and the first half of 2020 reflected the general increases in per capita consumption in China.

Maturity of Loans

A substantial portion of the Bank's loans and advances consists of loans that are due within one year. As at 30 June 2020, these loans represented approximately 41.36 per cent. of the net balance of the Bank's loans and advances on such date. When a short-term loan is renewed following repayment within the credit term of the loan, no re-application for a credit line is required, provided such loan is drawn in accordance with relevant rules and within the effective credit line. Upon expiration of the credit term of a loan, a borrower must re-apply for a new loan, subject to the Bank's standard credit approval procedures. The interest rates for the Bank's Renminbi-denominated loans and advances are regulated by the PBOC, and banks have discretion to determine the interest rates for Renminbi-denominated loans and advances within a permitted range. The interest rate for discounted bills is determined with reference to the PBOC market re-discount interest rate.

Borrower Concentration

Under the current PRC banking regulations, the aggregate amount of the Bank's loan exposure to any single borrower may not exceed 10 per cent. of its net capital. The Bank is currently in compliance with this regulatory requirement. As at 30 June 2020, lending to the largest single customer of the Bank accounted for 3.98 per cent. of its net capital and the Bank's top 10 largest loan exposures represented 17.55 per cent. of its net capital.

Loan Concentration by Geographical Location

The following table sets forth the geographic distribution of the Bank's gross loans and advances as at the dates indicated:

	As at 30 June			As at 31 December	
	2020	2019	2019	2018	2017
			(RMB in million)		
Northern China[(1)]	721,654	650,053	689,601	619,891	588,224
North-eastern China[(2)]	224,615	206,241	212,871	205,989	207,142
Eastern China[(3)]	1,989,225	1,815,856	1,830,275	1,710,884	1,625,585
Central & Southern China[(4)]	1,265,117	1,034,907	1,106,903	941,511	851,780
Western China[(5)]	606,545	509,681	532,796	480,670	447,924
Overseas[(6)]	385,018	380,033	391,517	355,681	424,852
Head office	537,339	533,841	540,312	539,602	433,749
Total	5,729,513	5,130,612	5,304,275	4,854,228	4,579,256

Notes:

(1) Includes Beijing Municipality, Tianjin Municipality, Hebei Province, Shanxi Province and the Inner Mongolia Autonomous Region.

(2) Includes Liaoning Province, Jilin Province and Heilongjiang Province.

(3) Includes Shanghai Municipality (excluding the Bank's head office), Jiangsu Province, Zhejiang Province, Anhui Province, Fujian Province, Jiangxi Province and Shandong Province.

(4) Includes Henan Province, Hunan Province, Hubei Province, Guangdong Province, Guangxi Autonomous Region and Hainan Province.

(5) Includes Chongqing Municipality, Sichuan Province, Guizhou Province, Yunnan Province, Tibet Autonomous Region, Shaanxi Province, Gansu Province, Qinghai Province, Ningxia Autonomous Region and Xinjiang Autonomous Region.

(6) Including overseas branches and subsidiaries which are located in Hong Kong, New York, Singapore, Seoul, Tokyo, Frankfurt, Macau, Ho Chi Ming City, San Francisco, Sydney, United Kingdom, Toronto, Luxembourg, Brisbane, Taipei, Paris, Rome, Brazil, Melbourne and Prague.

The Bank's business is concentrated on the economically developed areas of China. As at 31 December 2017, 2018 and 2019 and 30 June 2020, the Bank's loans and advances to customers from Eastern China, Central and Southern China, and Northern China accounted for 66.95 per cent., 67.41 per cent., 68.37 per cent. and 69.40 per cent., respectively, of its total loans and advances to customers. The Bank's loans and advances to customers are primarily concentrated in the Yangtze River Delta, the Bohai Rim Economic Zone and the Pearl River Delta. The Bank's loans to borrowers from the Yangtze River Delta, the Bohai Rim Economic Zone and the Pearl River Delta accounted for 35.45 per cent., 15.74 per cent. and 9.60 per cent., respectively, of the Bank's loans and advances to customers as at 30 June 2020. The increase of the Bank's relative loan distributions to the Yangtze River Delta, the Bohai Rim Economic Zone and the Pearl River Delta was primarily due to the Bank's focus on these areas.

LOAN QUALITY

The Bank measures and monitors the asset quality of the Bank's loan portfolio through its loan classification system. The Bank classifies its loans using a five-category loan classification system, which complies with the applicable regulatory guidelines.

The Bank intends to continue to improve its loan quality and to generate stable profits while maintaining its credit risk exposure within acceptable parameters through a diversified loan portfolio. The Bank has established an integrated credit risk management system with comprehensive policies and procedures to identify, measure, monitor and control credit risk across its organisation. See the section headed "Risk Management and Internal Control".

Impaired loans are a concept under IFRS, which has been adopted by the Bank in the preparation of its financial statements set forth in the Original Offering Circular. A loan is impaired if there is objective evidence that the Bank will not be able to collect all amounts due according to the original contractual terms of such loan. Non-performing loan is used to refer to a loan that is classified as "substandard", "doubtful" or "loss" under the five-category loan classification system established by the CBIRC.

Overdue loans are (1) for loans with a specific expiry date — these loans should be treated as overdue where the principal or interest is overdue and remains unpaid as at the reporting date; (2) for loans with regular instalments — these loans should be treated as overdue when an instalment payment is overdue and remains unpaid as at the reporting date.

Provision for Impairment Losses on Loans and Advances to Customers

For the year ended 31 December 2017, for a financial asset that is individually significant, the Group assesses the asset individually for impairment. For a financial asset that is not individually significant, the Group assesses the asset individually for impairment or includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset (whether significant or not), it includes the asset in a group of financial assets with similar credit risk characteristics and collectively reassesses them for impairment. Assets for which an impairment loss is individually recognised are not included in a collective assessment of impairment.

If financial assets carried at amortised cost are impaired, the carrying amounts of the financial assets are reduced to the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The amount of reduction is recognised as an impairment loss in profit or loss and is recorded through the use of an allowance account. When a financial asset is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss. If, subsequent to the recognition of an impairment loss on financial assets carried at amortised cost, there is objective evidence of a recovery in value of the financial assets which can be related objectively to an event occurring after the impairment is recognised, the previously recognised impairment loss is reversed. However, the reversal is made to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Effective from 1 January 2018, IFRS 9 introduces a new model for the recognition of impairment losses — the expected credit losses ("**ECL**") model, which constitutes a change from the incurred loss model in IAS 39.

Under IFRS 9, ECL is a probability-weighted estimate of credit losses. A credit loss is the difference between the total cash flows that are due to the Group in accordance with the contract and the total cash flows that the Group expects to receive discounted at the original effective interest rate, i.e. the present value of the total cash flows shortage. Purchased or originated credit-impaired financial assets shall be discounted at the credit-adjusted effective interest rate. The Group measures the ECL of financial instruments at amortised cost or debt investments at fair value through other comprehensive income. The Group divides them into 3 stages by assessing whether there has been a significant increase in credit risk since initial recognition. The Group measures the ECL of a financial instrument in a way that reflects (1) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes; (2) the time value of money; and (3) 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.

The following table sets forth the changes to the Group's ECL allowance for impairment losses on corporate loan measured at amortised cost for the six months ended 30 June 2020:

	Stage 1 12-month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
As at 1 January 2020	23,125	39,960	42,085	105,170
Addition/(Reversal)	1,804	(1,740)	(476)	(412)
Transfer in	—	417	—	417
Written-offs and disposals	—	(2,702)	(11,118)	(13,820)
Transfers:	(27)	(10,436)	10,463	—
Transfer between Stage 1 and Stage 2, net	23	(23)	—	—
Transfer between Stage 1 and Stage 3, net	(50)	—	50	—
Transfer between Stage 2 and Stage 3, net	—	(10,413)	10,413	—
Remeasurement	7,917	4,654	5,580	18,151
Recoveries of loans written-off in previous years	—	—	1,476	1,476
Unwind of discount	—	—	(651)	(651)
Exchange differences	22	9	(2)	29
As at 30 June 2020	32,841	30,162	47,357	110,360

The following table sets forth the changes to the Group's ECL allowance for impairment losses on individual loan measured at amortised cost for the six months ended 30 June 2020:

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2020	8,394	3,193	15,962	27,549
Addition/(Reversal)	599	(63)	(543)	(7)
Written-offs and disposals	—	—	(9,967)	(9,967)
Transfers:	245	(1,146)	901	—
Transfer between Stage 1 and Stage 2, net	312	(312)	—	—
Transfer between Stage 1 and Stage 3, net	(67)	—	67	—
Transfer between Stage 2 and Stage 3, net	—	(834)	834	—
Remeasurement	652	1,731	10,453	12,836
Recoveries of loans written-off in previous years	—	—	660	660
Unwind of discount	—	—	(116)	(116)
Exchange differences	2	51	(51)	2
As at 30 June 2020	9,892	3,766	17,299	30,957

The following table sets forth certain information regarding the Bank's individually identified impaired loans and its loans overdue by more than 90 days as at the dates indicated:

	As at			
	30 June 2020	31 December 2019	31 December 2018	31 December 2017
	(RMB in million, except percentages)			
Individually identified impaired loans	96,292	78,043	72,512	68,506
Loans overdue by more than 90 days	77,242	61,597	63,321	76,841
Percentage of impaired loans to gross amount of loans and advances to customers	1.68%	1.47%	1.49%	1.50%

Impaired Loans by Industry

A significant portion of the Bank's impaired corporate loans is concentrated in the manufacturing, wholesale and retail and real estate sectors. The impaired loan concentration in the manufacturing sector is due primarily to the high proportion of corporate loans to the manufacturing sector, and to the intense competition and overcapacity exhibited by this sector. The impaired loan concentration in the wholesale and retail sector is due primarily to the intense competition and cyclicality exhibited by this sector during the global financial crisis. The Bank has recently adopted several measures as part of its on-going efforts to manage its credit risk across its industries by, among other things, adopting an industry risk rating system and an internal risk rating system to monitor those industries which are most affected by governmental policies or overcapacity, or those which are low-growth industries, so that the Bank can adjust timely its credit standards and select customers with a lower risk profile. The impaired loan concentration in the real estate sector is due primarily to the growth of the Bank's lending to the real estate sector. The Bank have tried to manage its credit risk in the real estate sector by paying close attention to the market environment and changes in governmental policies, by focusing its lending more heavily on large national and regional property development companies and limiting its lending to small-sized and medium-sized property development companies.

Impaired Loans by Geographical Area

The following table sets forth the geographic distribution of the Bank's impaired loans as at the dates indicated:

	As at 30 June 2020			As at 31 December 2019			As at 31 December 2018			As at 31 December 2017		
	Amount	% of total loans	Impaired Loan ratio(7)	Amount	% of total loans	Impaired Loan ratio(7)	Amount	% of total loans	Impaired Loan ratio(7)	Amount	% of total loans	Impaired Loan ratio(7)
	(RMB in million, except percentages)											
Head Office(1)	12,922	13.41	2.40	11,133	14.26	2.06	7,681	10.60	1.42	—	—	—
Northern China(2)	8,028	8.34	1.11	5,506	7.06	0.80	7,734	10.67	1.25	8,491	12.69	1.44
North Eastern China(3)	10,378	10.78	4.62	13,826	17.72	6.50	8,668	11.95	4.21	4,412	6.59	2.13
Eastern China(4)	32,721	33.98	1.64	21,573	27.64	1.18	21,895	30.20	1.28	33,899	48.27	1.65
Central & Southern China(5)	16,984	17.64	1.34	14,419	18.48	1.30	14,941	20.60	1.59	10,584	15.82	1.24
Western China(6)	11,435	11.88	1.89	10,373	13.29	1.95	10,329	14.24	2.15	10,146	15.17	2.27
Overseas(7)	3,824	3.97	0.99	1,213	1.55	0.31	1,264	1.74	0.36	974	1.46	0.23
Total	96,292	100.00	1.68	78,043	100.00	1.47	72,512	100.00	1.49	68,506	100.00	1.50

Notes:

(1) The figure for head office as at 31 December 2017 was included in that of Eastern China.

(2) Includes Beijing Municipality, Tianjin Municipality, Hebei Province, Shanxi Province and the Inner Mongolia Autonomous Region.

(3) Includes Liaoning Province, Jilin Province and Heilongjiang Province.

(4) Includes Shanghai Municipality (excluding the Bank's head office), Jiangsu Province, Zhejiang Province, Anhui Province, Fujian Province, Jiangxi Province and Shandong Province. The figure as at 31 December 2017 includes that of the Bank's head office.

(5) Includes Henan Province, Hunan Province, Hubei Province, Guangdong Province, Guangxi Autonomous Region and Hainan Province.

(6) Includes Chongqing Municipality, Sichuan Province, Guizhou Province, Yunnan Province, Tibet Autonomous Region, Shaanxi Province, Gansu Province, Qinghai Province, Ningxia Autonomous Region and Xinjiang Autonomous Region.

(7) Including overseas branches and subsidiaries which are located in Hong Kong, New York, Singapore, Seoul, Tokyo, Frankfurt, Macau, Ho Chi Ming City, San Francisco, Sydney, United Kingdom, Toronto, Luxembourg, Brisbane, Taipei, Paris, Rome, Brazil, Melbourne and Prague.

(8) Impaired loan ratios for each geographic region are calculated by dividing total impaired loans for each geographic region by total outstanding loans for that geographic region.

TRADING ASSETS

The Bank invests in and trades Renminbi-denominated and foreign currency-denominated listed and unlisted debt and equity securities for its own account to (1) maintain the stability and diversification of the Bank's assets, (2) maintain adequate sources of back-up liquidity to match the Bank's funding requirements, and (3) supplement income from the Bank's core lending activities.

The Bank's investment securities include primarily securities issued by central governments and central banks, securities issued by banks and other financial institutions, securities issued by corporate entities, as well as a small portion of investment securities issued by public sector entities. As at 30 June 2020, securities issued by governments and central banks, securities issued by public sector entities, securities issued by banks and other financial institutions and securities issued by corporate entities represented approximately 69.84 per cent., 1.04 per cent., 23.41 per cent. and 5.71 per cent., respectively, of the total amount of the Bank's investment securities.

The Bank's trading assets include primarily listed and unlisted debt and equity securities, as well as derivative financial instruments, issued by banks and financial institutions, corporate entities, governments and central banks and public sector entities. The majority of the unlisted bonds in this category are traded in the interbank market in the PRC. As at 30 June 2020, securities issued by banks and other financial institutions, corporate entities, governments and central banks and public sector entities (not including the derivative financial instruments and precious metal contract) represented approximately 3.59 per cent., 0.97 per cent., 58.66 per cent. and 36.78 per cent., respectively, of the Bank's financial assets at fair value through profit and loss.

The Bank recorded its investment securities and trading assets on its statement of financial position as financial assets held for trading, loans and receivables investment securities, held-to-maturity investment securities and available-for-sale investment securities as at and for the year ended 31 December 2017. Debt securities with fixed or determinable payments that are not quoted in an active market, without the intent to sell immediately or in the short term are classified as loans and receivables. Investment securities with fixed maturity where the Bank's management has the intent and the ability to hold to maturity are classified as held-to-maturity investment securities. Investment securities intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices are classified as available-for-sale investment securities. A trading asset is classified as financial assets held for trading if it is acquired principally for the purpose of selling in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. From 1 January 2018, the Bank applied IFRS 9 and records and reclassifies its investment securities and trading assets on its statement of financial position as financial assets by measurement of fair value through profit or loss ("**FVPL**"), fair value through other comprehensive income ("**FVOCI**") or amortised cost. Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured from these financial assets. Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at FVOCI. As at 30 June 2020, the Bank's portfolio of investment securities and financial investments at fair value through profit and loss had a carrying value of RMB2,587,141 million and RMB519,541 million, representing 24.25 per cent. and 4.87 per cent., respectively, of its total assets.

The following table sets forth a distribution of the Bank's investment securities by classification and type of issuer as at the dates indicated:

	As at							
	30 June 2020		31 December 2019		31 December 2018		31 December 2017	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(RMB in million, except percentages)							
Financial investments at FVOCI								
Governments and central banks	322,242	12.47	258,959	10.57	66,621	2.98	—	—
Public sector entities	2,692	0.10	2,108	0.09	3,699	0.17	—	—
Banks and other financial institutions	379,916	14.68	329,703	13.45	312,339	13.96	—	—
Corporate entities	71,496	2,76	69,941	2.85	54,971	2.46	—	—
Total	776,346	30.01	660,711	26.96	437,630	19.57	—	—
Available-for-sale financial assets								
Banks and other financial institutions	—	—	—	—	—	—	302,418	14.95
Corporate entities	—	—	—	—	—	—	49,196	2.43
Governments and central banks	—	—	—	—	—	—	37,783	1.87
Public sector entities	—	—	—	—	—	—	4,351	0.22
Total	—	—	—	—	—	—	393,748	19.47
Financial investments at amortised cost								
Governments and central banks	1,590,260	61.47	1,521,473	62.08	1,439,657	64.37	—	—
Public sector entities	24,294	0.94	25,689	1.05	28,364	1.27	—	—
Banks and other financial institutions	169,587	6.55	215,817	8.81	292,631	13.08	—	—
Corporate entities	26,654	1.03	27,038	1.10	38,411	1.72	—	—
Total	1,810,795	69.99	1,790,017	73.04	1,799,063	80.43	—	—
Held-to-maturity investments								
Central governments and central banks	—	—	—	—	—	—	1,152,115	56.97
Banks and other financial institutions	—	—	—	—	—	—	280,343	13.86
Corporate entities	—	—	—	—	—	—	49,820	2.46
Public sector entities	—	—	—	—	—	—	29,097	1.44
Total	—	—	—	—	—	—	1,511,375	74.73
Loans to receivables								
Central governments and central banks	—	—	—	—	—	—	104,630	5.17
Banks and other financial institutions	—	—	—	—	—	—	12,646	0.63
Total	—	—	—	—	—	—	117,276	5.80
Total	2,587,141	100.00	2,450,728	100.00	2,236,693	100.00	2,022,399	100.00

LIABILITIES AND SOURCES OF FUNDS

The Bank's total liabilities as at 30 June 2020 were RMB9,855,800 million, which represents an increase of 8.25 per cent. from RMB9,104,688 million as at 31 December 2019. The Bank's customer deposits represented a significant portion of its liabilities and accounted for 65.85 per cent. of its total liabilities as at 30 June 2020. The Bank obtains funding for its lending and investment activities from a variety of sources, both domestic and international. The Bank's principal sources of funding are corporate and individual deposits. The Bank's funding operations are designed to ensure both a stable source of funds and effective liquidity management. The Bank continuously adjusts its funding operations to minimise funding costs and also endeavours to match currencies and maturities with those of its loan portfolio.

The following table sets forth information on the outstanding balances of the Bank's customer deposits as at the dates indicated:

	As at							
	30 June 2020		31 December 2019		31 December 2018		31 December 2017	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(RMB in million, except percentages)							
Corporate deposits								
Corporate demand deposits	1,952,384	30.08	1,835,688	30.57	1,748,857	30.55	1,852,676	33.41
Corporate time deposits	2,403,927	37.04	2,196,096	36.57	2,195,241	38.35	2,003,443	36.13
Sub-total	4,356,311	67.12	4,031,784	67.14	3,944,098	68.90	3,856,119	69.54
Individual deposits								
Individual current deposits	829,632	12.78	762,669	12.70	687,393	12.01	655,559	11.82
Individual time deposits	1,301,938	20.06	1,207,253	20.10	1,089,095	19.02	1,030,233	18.58
Sub-total	2,131,570	32.84	1,969,922	32.80	1,776,488	31.03	1,685,792	30.40
Other deposits	2,271	0.04	3,364	0.06	3,903	0.07	3,455	0.06
Total customer deposits	6,490,152	100.00	6,005,070	100.00	5,724,489	100.00	5,545,366	100.00

As at 30 June 2020, 78.42 per cent. of the Bank's customer deposits had current maturities of one year or less or were payable on demand. However, a substantial portion of such deposits has been rolled over upon maturity or has been maintained by the Bank. Deposits have been, over time, a stable source of funding for the Bank.

DISTRIBUTION OF DEPOSITS BY GEOGRAPHY

The following table sets forth the distribution of the Bank's deposit balances as at the dates indicated:

	As at							
	30 June 2020		31 December 2019		31 December 2018		31 December 2017	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(RMB in million, except percentages)							
Northern China[(1)]	1,069,704	16.48	1,064,499	17.73	994,799	17.38	959,447	17.30
North Eastern China[(2)]	321,526	4.95	306,599	5.11	301,526	5.27	288,765	5.21
Eastern China[(3)]	2,284,030	35.19	2,126,127	35.40	2,040,424	35.65	1,974,271	35.60
Central & Southern China[(4)]	1,560,588	24.05	1,363,673	22.70	1,292,776	22.58	1,254,785	22.63
Western China[(5)]	701,051	10.80	661,266	11.01	652,735	11.40	661,326	11.93
Overseas[(6)]	549,645	8.47	465,096	7.75	424,431	7.41	402,687	7.26
Head office	3,608	0.05	17,810	0.30	17,798	0.31	4,085	0.07
Total	6,490,152	100.00	6,005,070	100.00	5,724,489	100.00	5,545,366	100.00

Notes:

(1) Includes Beijing Municipality, Tianjin Municipality, Hebei Province, Shanxi Province and the Inner Mongolia Autonomous Region.

(2) Includes Liaoning Province, Jilin Province and Heilongjiang Province.

(3) Includes Shanghai Municipality (excluding the Bank's head office), Jiangsu Province, Zhejiang Province, Anhui Province, Fujian Province, Jiangxi Province and Shandong Province.

(4) Includes Henan Province, Hunan Province, Hubei Province, Guangdong Province, Guangxi Autonomous Region and Hainan Province.

(5) Includes Chongqing Municipality, Sichuan Province, Guizhou Province, Yunnan Province, Tibet Autonomous Region, Shaanxi Province, Gansu Province, Qinghai Province, Ningxia Autonomous Region and Xinjiang Autonomous Region.

(6) Including overseas branches and subsidiaries which are located in Hong Kong, New York, Singapore, Seoul, Tokyo, Frankfurt, Macau, Ho Chi Ming City, San Francisco, Sydney, United Kingdom, Toronto, Luxembourg, Brisbane, Taipei, Paris, Rome, Brazil, Melbourne and Prague.

SUBSTANTIAL SHAREHOLDERS

The table below sets forth certain information regarding ownership of outstanding shares of the Bank as at 30 June 2020 by those persons who hold or are beneficially interested in any substantial part of the share capital of the Bank.

Particulars of shareholdings disclosed pursuant to H shares regulatory requirements

As at 30 June 2020, to the knowledge of the directors, supervisors and chief executive of the Bank, the substantial shareholders and other persons (other than directors, supervisors and chief executive of the Bank) who had interests or short positions in the shares or underlying shares of the Bank as recorded in the register required to be kept pursuant to Section 336 of the SFO were as follows:

Name of substantial shareholders	**Capacity**	**Number of A shares**	**Nature of interest[(1)]**	**Approximate percentage of total issued A shares[(8)]**	**Approximate percentage of total issued shares[(8)]**
				(%)	
Ministry of Finance of the People's Republic of China	Beneficial owner	13,178,424,446[(2)]	Long position	33.57	17.75
National Council for Social Security Fund	Beneficial owner	3,847,782,834[(3)]	Long position	9.80	5.18

Name of substantial shareholders	**Capacity**	**Number of H shares**	**Nature of interest[(1)]**	**Approximate percentage of total issued H shares[(8)]**	**Approximate percentage of total issued shares[(8)]**
				(%)	
National Council for Social Security Fund	Beneficial owner	9,055,040,332[(3)]	Long position	25.86	12.19
Ministry of Finance of the People's Republic of China	Beneficial owner	4,553,999,999[(2)]	Long position	13.01	6.13
HSBC Holding plc	Interest of controlled corporations	14,135,636,613[(4)]	Long position	40.37	19.03

Notes:

(1) Long positions held other than through equity derivatives.

(2) To the knowledge of the Bank, as at 30 June 2020, the Ministry of Finance of the People's Republic of China held 4,553,999,999 H shares and 13,178,424,446 A shares of the Bank, representing 6.13 per cent. and 17.75 per cent. of the total ordinary shares issued by the Bank, respectively.

(3) To the knowledge of the Bank, as at 30 June 2020, the National Council for Social Security Fund held 9,055,040,332 H shares and 3,847,782,834 A shares of the Bank, representing 12.19 per cent. and 5.18 per cent. of the total ordinary shares issued by the Bank, respectively.

(4) HSBC Holding plc wholly owns HSBC Asia Holdings Limited, which wholly owns HSBC. HSBC beneficially held 14,135,636,613 H shares of the Bank. Pursuant to the SFO, HSBC Holding plc was deemed to own the interests associated with the 14,135,636,613 H shares held by HSBC.

Save as disclosed above, as at 30 June 2020, no person (excluding the Directors, Supervisors and Chief Executive of the Bank) or corporation was recorded in the register required to be kept under Section 336 of the SFO as holding any interests or short positions in the shares or underlying shares of the Bank that would fall to be disclosed to the Bank and the HKSE pursuant to Divisions 2 and 3 of Part XV of the SFO.

MANAGEMENT OF THE BANK

GENERAL

The Board of the Bank currently comprises 14 members being two executive directors, six non-executive directors and six independent non-executive directors. Each director of the Bank is elected at a shareholder meeting for a term of three years, which is renewable upon re-election. The chairman and the vice chairman of the Board are elected by a simple majority of the Board.

The business address of the directors, supervisors and senior management personnel named below is No. 188 Yinchengzhong Road, Pudong District, Shanghai, PRC, 200120.

DIRECTORS

The following table sets forth certain information concerning the directors of the Bank.

Name	Position
Mr. REN Deqi	Chairman and Executive Director
Mr. LIU Jun	Vice Chairman, Executive Director and President
Mr. HE Zhaobin	Non-executive Director
Mr. LI Longcheng	Non-executive Director
Mr. CHAN Siu Chung	Non-executive Director
Mr. SONG Hongjun	Non-executive Director
Mr. CHEN Junkui	Non-executive Director
Mr. LIU Haoyang	Non-executive Director
Mr. Jason YEUNG Chi Wai	Independent Non-executive Director
Mr. Raymond WOO Chin Wan	Independent Non-executive Director
Mr. CAI Haoyi	Independent Non-executive Director
Mr. SHI Lei	Independent Non-executive Director
Mr. ZHANG Xiangdong	Independent Non-executive Director
Ms. LI Xiaohui	Independent Non-executive Director

EXECUTIVE DIRECTORS

Mr. REN Deqi, Chairman, Executive Director and Senior Economist. Mr. Ren serves as the Chairman of the Board from 16 January 2020. He has been a Vice Chairman, Executive Director and President of the Bank since August 2018. Mr. Ren resigned as President of the Bank on 13 December 2019 and served as Acting President from 13 December 2019 to 6 July 2020. Mr. Ren worked successively in the Changling Sub-branch of Yueyang Branch, Yueyang City Central Sub-branch, Yueyang Branch, Credit Management Committee Office and Credit Risk Management Department of China Construction Bank ("**CCB**") from July 1988 to August 2003. He successively served as Deputy General Manager of Credit Approval Department, General Manager of Risk Control Department, General Manager of Credit Management Department, president of the Hubei Provincial Branch and General Manager of Risk Management Department of CCB from August 2003 to May 2014. He served as Executive Vice President of Bank of China ("**BOC**") from July 2014 to November 2016, and served as Executive Director and Executive Vice President of BOC from December 2016 to June 2018; during such period, he also served as Non-executive Director of BOC Hong Kong (Holdings) Limited from October 2015 to June 2018 and President of Shanghai RMB Trading Unit of BOC from September 2016 to June 2018. Mr. Ren obtained his Master's degree in Engineering from Tsinghua University in 1988.

Mr. LIU Jun, Vice Chairman and Executive Director. Mr. Liu has served as Vice Chairman of the Board and Executive Director of the Bank since 5 August 2020. Mr. Liu served as Executive Vice President of China Investment Corporation from November 2016 to May 2020, Deputy General Manager of China Everbright Group Ltd. from December 2014 to November 2016, and Executive Director and Deputy General Manager of China Everbright Group Limited from June 2014 to December 2014 (from June 2014 to November 2016, Mr. Liu successively served as Chairman of Sun Life Everbright Life Insurance Company Limited, Vice Chairman of China Everbright Holdings Company Limited., Executive Director and Vice Chairman of China Everbright Limited, Executive Director and Vice Chairman of China Everbright International Limited, and Chairman of China Everbright Industrial (Group) Co., Ltd.). He served as Assistant to the President and Executive Vice President of China Everbright Bank from September 2009 to June 2014 (during which he concurrently acted as president of Shanghai Branch of China Everbright Bank and General Manager of Financial Market Centre of China Everbright Bank). From July 1993 to September 2009, he successively worked at the International Business Department, Hong Kong Representative Office, the Treasury Department and the Investment Banking Department of China Everbright Bank. Mr. Liu received a Doctorate degree in business administration from Hong Kong Polytechnic University in 2003.

NON-EXECUTIVE DIRECTORS

Mr. HE Zhaobin[2], Non-executive Director and CICPA. Mr. He has been a Non-executive Director of the Bank since August 2017. Mr. He was the Deputy Director of National Agricultural Comprehensive Development Office in Ministry of Finance from August 2014 to June 2017. He served as the Deputy Director of Reform Group of Agriculture Comprehensive Development Office of the State Council from December 2013 to August 2014. He served as Deputy Director of the Second Department of Supervision and Inspection of the Ministry of Finance and Director of the Third Department, and served as Cadres of Vice-ministerial from June 2000 to December 2013. During the period from November 2011 to November 2013, Mr. He was the Vice Mayor in Huangshi municipal people's government in Hubei Province. He worked in Supervision Division of Treasury Department in Ministry of Finance from August 1994 to June 2000. And he worked in Tax and Financial Price Inspection Office in the State Council from August 1990 to August 1994. Mr. He graduated from the Accounting Department of Shanghai University of Finance and Economics in 1990 with a Bachelor's degree in Economics. In 2007, he obtained a Master's degree in Public Administration in China National School of Administration and Peking University.

Mr. LI Longcheng, Non-executive Director. Mr. Li has been a Non-executive Director since June 2020. Mr. Li served as the Director of Heilongjiang Supervision Bureau of the Ministry of Finance since April 2019, the Chief Inspector of Heilongjiang Supervision & Inspection Office of the Ministry of Finance from August 2015 to April 2019, the Chief Inspector of Liaoning Supervision & Inspection Office of the Ministry of Finance from August 2012 to August 2015, the Deputy Inspector of Heilongjiang Supervision & Inspection Office of the Ministry of Finance from August 2008 to August 2012; the Deputy Inspector of Zhejiang Supervision & Inspection Office of the Ministry of Finance from January 2006 to August 2008. From January 1995 to January 2006, Mr. Li successively served as a Staff Member of the General Division, a Senior Staff Member of the General Division, the Deputy Director of the General Division, the Director of the First Division and the Assistant Commissioner of Heilongjiang Supervision & Inspection Office of the Ministry of Finance. From August 1986 to January 1995, Mr. Li worked in Beijing Forestry Management Cadres College of the Ministry of Forestry and Heilongjiang Finance Department. Mr. Li obtained a Doctorate degree in management from Northeast Forestry University in 2003.

2 After the qualification of Mr. Chang Baosheng serving as a Non-executive Director of the Bank is approved, Mr. He Zhaobin intends to cease to serve as a Non-executive Director, a member of the Strategy Committee (Inclusive Finance Development Committee) of the Board and a member of the Audit Committee of the Board.

Mr. CHAN Siu Chung, Non-executive Director. Mr. Chan has been a Non-executive Director since October 2019. Mr. Chan has been serving as the Co-head of Markets for Asia-Pacific at the Hong Kong and Shanghai Banking Corporation Limited since August 2013. Mr. Chan joined the Hong Kong and Shanghai Banking Corporation Limited in 1986, and from July 1986 to July 2013, Mr. Chan successively served as the Senior Dealer, Senior Interest Rate Dealer, Head of Hong Kong Dollar Interest Rate and Derivatives Trading, Head of Trading in Hong Kong, and concurrently served as Deputy Head of Global Markets Asia Pacific and Head of Trading in Hong Kong. Mr. Chan graduated from the University of Hong Kong with a Bachelor's Degree in Electrical Engineering in 1986 and obtained his Master's degree from Macquarie University in Australia of Applied Finance in 1994.

Mr. SONG Hongjun, Non-executive Director. Mr. Song has been a Non-executive Director since June 2019. Mr. Song has been serving as the Director of Pension Accounting Department of the National Council for Social Security Fund since September 2018. From August 2001 to September 2018, Mr. Song successively served as the Deputy Division Chief of Financial Division of Finance and Accounting Department, the Division Chief and Deputy Head of Fund and Finance Department, and the Deputy Head of Pension Accounting Department of the National Council for Social Security Fund. From August 1989 to August 2001, Mr. Song successively served as a Cadre, the Staff Member, and Senior Staff Member in Financial Division of Commerce, Banking and Finance Department of Ministry of Finance, the Principal Staff Member in the Second Financial Division of Commerce and Finance Department, the Principal Staff Member in the First Division of National Debt and Finance Department, and the Deputy Division Chief of the First Financial Division of Finance Department. Mr. Song graduated from Dongbei University of Finance and Economics in 1989, and obtained his Master's degree in Public Administration from the joint program between Peking University and Chinese Academy of Governance in 2008.

Mr. CHEN Junkui, Non-executive Director. Mr. Chen has been a Non-executive Director since June 2019. Mr. Chen has been serving as the Deputy Director-General of Financial Management and Supervision (internal audit) Department of the State Tobacco Monopoly Administration since February 2019. Mr. Chen successively served as the Deputy Head, Head of the Finance and Asset Department of China Tobacco Machinery Group Co., Ltd. from December 2005 to February 2019, the Principal Staff Member in Financial Management Department of China Tobacco Investment Management Co. from September 2005 to December 2005, a Cadre of Financial Department and the Senior Staff Member and Principal Staff Member of Financial Department of National Tobacco Commodity Company (Cigarette Filter Material Company) from September 2000 to September 2005, and worked in Beijing Bureau of Geology and Mineral from July 1997 to September 2000. Mr. Chen obtained his Master's degree in Management Science from Capital University of Economics and Business in July 2002.

Mr. LIU Haoyang, Non-executive Director and Accountant. Mr. Liu has been a Non-executive Director since August 2016. Mr. Liu has been Deputy General Manager of the Capital Operation Department of Beijing Capital Airport Holding Company since November 2015. He served as Deputy General Manager of Capital Airport Finance Co., Ltd. from October 2012 to November 2015, Financial Director of Inner Mongolia Airport Group from June 2009 to October 2012, Assistant to General Manager and Deputy General Manager of Finance Department of Beijing Capital Airport Holding Company from March 2005 to June 2009, Assistant to Manager of Finance Department of Jinfei Civil Aviation Economic Development Center from July 2001 to March 2005, and Assistant to Manager of Finance Department of Beijing Huadu Breeding Company from July 1994 to September 1998. Mr. Liu obtained his Master's degree in Management from College of Economics and Management of China Agricultural University in 2001.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Jason YEUNG Chi Wai, Independent Non-executive Director and Lawyer. Mr. Yeung has been an Independent Non-executive Director since October 2016. Mr. Yeung serves as Supervisor and President of Risk Management of Fung Group (1937) and its Hong Kong listed company since July 2015. At present, Mr. Yeung also holds positions such as Independent Director of AviChina Industry & Technology Company Limited and Member of Convention of Hospital Authority in Hong Kong. Mr. Yeung served as Vice President of Bank of China (Hong Kong) Limited (in charge of Personal Banking Business) from April 2011 to February 2015, before which he also served as Secretary of the Board of Bank of China (Hong Kong) Limited and Secretary of Bank of China Limited and took positions in charge of supervision of market and compliance of laws and regulations in Hong Kong government, the Securities and Futures Commission, law firms and various enterprises. Mr. Yeung graduated from the University of Hong Kong in 1978, the College of Law of England and Wales in 1985 and the Faculty of Law of University of Western Ontario in 1991, and obtained his MBA degree from University of Western Ontario in 2001.

Mr. Raymond WOO Chin Wan, Independent Non-executive Director, Hong Kong and Canadian Certified Public Accountant. Mr. Woo serves as an Independent Non-executive Director of the Bank from November 2017. Mr. Woo joined Ernst & Young in June 1985 and retired in June 2015. Within this period, he has been Senior Associate, Manager, Senior Manager, Partner and Managing Partner.

He served as Managing Partner of Ernst & Young Greater China from 2011 to June 2015 and served as Director and General Manager in Ernst & Young from 2007 to 2012. Mr. Woo was also the member of Ernst & Young Greater China Management Committee from 1998 to 2015. Mr. Woo is currently an Independent Non-executive Director of Dah Chong Hong Holdings Limited and Great Wall Pan Asia Holdings Limited. Mr. Woo obtained his MBA degree from York University in Canada in 1982.

Mr. CAI Haoyi, Independent Non-executive Director and Researcher. Mr. Cai has been Independent Non-executive Director of the Bank since August 2018. Mr. Cai currently serves as Master's Supervisor in PBC School of Finance, Tsinghua University, Doctoral Supervisor in University of International Business and Economics and Postdoctoral supervisor in Financial Research Institute of the PBOC. Mr. Cai served as Chairman of the Board of Supervisors in Everbright Bank of China from November 2012 to June 2015 and Non-executive Director in Bank of China from August 2007 to November 2012. Mr. Cai held various positions in Bank of China from July 1986 to March 2007, including Principal Staff of Graduate Department, Deputy Division Chief of Political Department, Division Chief of Political Department, Director, Deputy Director of the General Office of Financial Research Institute, Deputy Head of Financial Research Institute, Deputy Head of Research Bureau and Secretary General of Monetary Policy Committee. Mr. Cai obtained his Doctoral Degree from Financial Research Institute of the PBOC in 2001 and he obtained special government allowances from the State Council in 2003.

Mr. SHI Lei, Independent Non-executive Director. Mr. Shi has been Independent Non-executive Director of the Bank since December 2019. Mr. Shi currently serves as a Professor, a Doctoral Supervisor of Fudan University, and the Head of the Public Economic Research Centre of Fudan University. Mr. Shi joined Fudan University in 1993, since then, he subsequently served as the Head of the China Socialism Market Economy Research Centre, the Director of the Publicity Department of the Communist Party Committee of Fudan University, and the Secretary of the Communist Party Committee of Fudan University Economics College. Currently, Mr. Shi also serves as the Independent Non-executive Director of Ko Yo Chemical (Group) Limited and Sanxiang Impression Co., Ltd. Mr. Shi obtained his Doctorate degree from the Institute of Economics at Shanghai Academy of Social Sciences in 1993. Mr. Shi enjoys the special allowance of the State Council.

Mr. ZHANG Xiangdong, Independent Non-executive Director and Senior Economist. Mr. Zhang served as a Non-executive Director of Bank of China Limited from July 2011 to June 2018 and a Non-executive Director of China Construction Bank Corporation from November 2004 to June 2010 (acting as Chairman of the Risk Management Committee of the Board of Directors from April 2005 to June 2010). From January 2004 to December 2008, Mr. Zhang concurrently served as Member of China International Economic and Trade Arbitration Commission. From August 2001 to November 2004, he successively served as Vice President of Haikou Branch of the PBOC and Deputy Director General of Hainan Branch of the State Administration of Foreign Exchange concurrently, Deputy Director General and Inspector of the General Affairs Department of the State Administration of Foreign Exchange. From September 1999 to September 2001, Mr. Zhang concurrently served as a Member of the Issuance Approval Committee of China Securities Regulatory Commission. Mr. Zhang graduated from Renmin University of China with a Bachelor's degree in law in 1986, graduated with a Postgraduate degree in international economic law from Renmin University of China in 1988, and obtained a Master's degree in law in 1990.

Ms. LI Xiaohui, Independent Non-executive Director. Ms. Li has been a Professor and Doctoral Supervisor at the School of Accounting, Central University of Finance and Economics from September 2003. From July 2001 to August 2003, she worked in the Professional Standards Department of the Chinese Institute of Certified Public Accountants. From April 1993 to August 1998, Ms. Li worked successively in Cangzhou Accounting Firm, Cangshi Accounting Firm and the State-owned Assets Administration under Hebei Province Department of Finance. Ms. Li is a national leading accountant, and a member of the Professional Technical Advisory Committee of the Chinese Institute of Certified Public Accountants, a member of the Audit Committee of the Accounting Society of China and a member of the Audit Standards Committee of the China Internal Audit Association. Ms. Li currently serves as Independent Director of Fangda Special Steel Technology Co., Ltd., State Grid Information and Communication Co., Ltd., Jizhong Energy Co., Ltd., and Camel Group Co., Ltd. Ms. Li previously served as Director of Fangda Carbon New Material Co., Ltd., Bank of Beijing Co., Ltd. and China U-Ton Holdings Limited. Ms. Li received a Doctorate degree in Economics from Central University of Finance and Economics in 2001.

Mr. WANG Linping, Mr. Wang has served as level-one inspector of the Retired Cadres Bureau of the Ministry of Finance since December 2019, chairman of China Finance and Economic Media Group from June 2018 to December 2019, department level cadre of the Ministry of Finance from March 2018 to June 2018. From May 2004 to March 2018, he successively served as chief and director-level cadre of the Financial Division and vice minister and minister of the Department of Administrative Finance of the Liaison Office of the Central People's Government in Macao Special Administrative Region. From July 1994 to May 2004, Mr. Wang served successively as chief staff member, assistant researcher of the Management Division of Retirement Funds of Administrative Institutions, deputy director and researcher of Pension Security Division of the Social Security Department of Ministry of Finance, and from August 1986 to July 1994, he served successively as a staff member, deputy chief staff member and chief staff member of the Party Committee of the Ministry of Finance. Mr. Wang obtained his Bachelor's degree in philosophy from Zhongnan University of Finance and Economy in 1986.

Mr. CHANG Baosheng, Mr. Chang has served as deputy inspector and level-two inspector of Ningxia Supervision Bureau of the Ministry of Finance since April 2019. From January 1995 to April 2019, he successively served as a staff member and deputy chief staff member of the First Business Section, the chief staff member of the General Division, the deputy director of the General Office, deputy director of the Second Business Department, deputy director of the Third Business Department, assistant commissioner and deputy inspector of Ningxia Supervision and Inspection Office of the Ministry of Finance. From July 1989 to January 1995, Mr. Chang served as a staff member of the Chinese Enterprise Division of Ningxia Finance Department of the Ministry of Finance. Mr. Chang obtained his Bachelor's degree in economics from Zhongnan University of Finance and Economy in 1989.

Pursuant to the requirements of relevant laws and regulations, regulatory rules and the Articles of Association, the appointment of Mr. Wang Linping and Mr. Chang Baosheng as Non-executive Directors of the Bank is subject to the approval by the shareholders of the Bank at the EGM as well as the approval of the CBIRC on their qualifications. Mr. Wang Linping's and Mr. Chang Baosheng's serving as a member of the special committees under the Board will be effective from the date of the approval on their qualifications as Non-executive Directors.

SENIOR MANAGEMENT

The senior management of the Bank comprises members of the senior management and secretary of the Board, of which, members of the senior management include the president, executive vice presidents, chief business officer, chief risk officer and HSBC strategic cooperation adviser, etc. The Bank adopts the system of accountability by the president under the leadership of the Board. The president is accountable to the Board, whereas various functional departments, branch offices and other members of senior management of the Bank are accountable to the president. The president has the right to organise, develop and operate management activities in accordance with laws, regulations, the Bank's Articles of Association and authorisation from the Board.

The following table sets forth certain information concerning members of the senior management of the Bank.

Name	Position
Mr. LIU Jun	President
Mr. Yin Jiuyong	Executive Vice President
Mr. GUO Mang	Executive Vice President
Mr. ZHOU Wanfu	Executive Vice President
Mr. GU Sheng	Secretary of the Board of Directors
Mr. TU Hong	Chief Business Officer (Interbank and Market Business Sector)
Mr. NG Siu On	BoCom-HSBC Strategic Cooperation Consultant

Mr. LIU Jun, please refer to details in "EXECUTIVE DIRECTORS".

Mr. YIN Jiuyong, Executive Vice President and Senior Economist. Mr. Yin has been Executive Vice President of the Bank since September 2019. Mr. Yin served as Executive Vice President of the Agricultural Development Bank of China from May 2014 to July 2019, Director of the General Office of the Agricultural Development Bank of China from December 2013 to May 2014, General Manager of the Henan Branch of the Agricultural Development Bank of China from January 2011 to December 2013, Deputy General Manager and General Manager of the First Customer Department of the Agricultural Development Bank of China from January 2005 to January 2011 (during which he was seconded to Baoding Branch of the Agricultural Development Bank of China as Deputy Manager of the Business Department of the branch and Deputy General Manager of the branch from February 2007 to January 2008). Mr. Yin served as Division Chief of the Comprehensive Division and Deputy Director of the First Credit Department of the Agricultural Development Bank of China during April 1999 to January 2005; Principal Staff and Deputy Division Chief of the Purchasing and Marketing Department of the Industrial and Commercial Credit Department of the Agricultural Development Bank of China from July 1994 to April 1998, and Principal Staff of the Trust and Investment Company of the Agricultural Bank of China from July 1993 to July 1994. Mr. Yin obtained his Doctoral degree in Agriculture from Beijing Agricultural University in 1993.

Mr. GUO Mang, Executive Vice President and Senior Economist. Mr. Guo has been Executive Vice President of the Bank since July 2018. Mr. Guo served as Chief Business Officer of the Bank from February 2017 to July 2018 and served as General Manager of the Bank's Beijing Branch and Chief Executive Officer of Beijing Administrative Department (Group Customer Department) from December 2016 to June 2018. He was General Manager of the Bank's Shenzhen Branch from January 2010 to December 2016, Deputy General Manager (in charge of overall work) and General Manager of the Bank's Chongqing Branch from September 2004 to January 2010. Moreover, he served as a credit clerk in the Credit and Investment Department and Deputy Section Chief of Shenzhen Branch, Head of Shatoujiao Office, Deputy General Manager (in charge of overall work) of Shatoujiao Subbranch, Deputy General Manager (in charge of overall work) and General Manager of Hongli Sub-branch, General Manager of the Marketing Department and Deputy General Manager of Shenzhen Branch from May 1991 to September 2004. Mr. Guo worked as Staff Member of PBOC Savings Interest Rate Department from June 1989 to May 1991. Mr. Guo also held various of positions from April 1988 to June 1989, including POBC Baoan Branch, Shenzhen Branch and State Administration of Foreign Exchange Shenzhen Branch. From July 1987 to April 1988, Mr. Guo worked as Staff Member in Reform Office of Comprehensive Planning Department in the PBOC. Mr. Guo obtained his Bachelor's degree in Economics from Fudan University in 1987.

Mr. ZHOU Wanfu, Executive Vice President. Mr. Zhou has been Executive Vice President of the Bank since November 2020. Mr. Zhou has been the Board Secretary of the Agricultural Bank of China from April 2018 to March 2020. Before that, Mr. Zhou served as General Manager of the Strategic Planning Department, President of Tianjin Training Institute and General Manager of the Strategic Planning Department of the Agricultural Bank of China successively from September 2012 to April 2018; Vice President of Chongqing Branch of the Agricultural Bank of China from June 2009 to September 2012; Deputy General Manager of the Asset and Liability Management Department, Deputy General Manager of the Planning and Finance Department, and General Manager of the Asset and Liability Management Department of the Agricultural Bank of China successively from October 2003 to June 2009; Vice President of the Ningbo Branch of the Agricultural Bank of China from November 1999 to October 2003; and Researcher and Deputy-Division-Chief-Level Cadre of the Research Office, Deputy Division Chief of the Development and Planning Department and Division Chief of Comprehensive Planning Department of the Agricultural Bank of China successively from July 1988 to November 1999. Mr. Zhou obtained a Master's degree in Economics from the Graduate School of the PBOC in 1988 and an MBA degree from Nanyang Technological University in Singapore in 2003.

Mr. GU Sheng, Secretary of the Board of Directors and Senior Economist. Mr. Gu has been Secretary of the Board of Directors and General Manager of Human Resources Department since April 2018. Mr. Gu successively served as General Manager of Human Resources Department from October 2015 to April 2018. Mr. Gu successively served as Deputy General Manager of Hainan Branch (in charge of overall work), Deputy General Manager of Nanjing Branch, General Manager of Suzhou Branch and General Manager of Jiangsu Branch from December 1999 to October 2015. Mr. Gu served as Division Chief of Personnel Department of the Personnel and Education Department of the Bank from March 1999 to December 1999. Mr. Gu held various of positions in the Bank, including Staff Member of Personnel and Education Department of Nanjing Branch, Deputy Section Chief of General Affairs Department, Assistant to the Division Chief of Personnel and Education Department and Section Chief of General Affairs Department, Deputy Division Chief of Personnel and Education Department, Deputy General Manager of Xiaguan Branch, General Manager of Xiaguan Branch from August 1987 to March 1999. Mr. Gu served as clerk of Credit Department of Jiangsu Xinghua County Sub-branch of Agricultural Bank of China from July 1984 to August 1987. Mr. Gu obtained his EMBA's degree from Nanjing University in 2006.

Mr. TU Hong, Chief Business Officer (Inter-bank and Market Business Sector). Mr. Tu has been Chief Business Officer (Interbank and Market Business Sector) of the Bank since September 2018, General Manager of Financial Institution Department of the Bank since August 2018. Mr. Tu served as Chief Executive Officer of Financial Market Business Center of the Bank from July 2014 to November 2018 (during which he concurrently served as Chief Executive Officer of Asset Management Business Center from February 2016 to September 2016). Mr. Tu held various of positions in the Bank from November 2000 to July 2014, including Deputy General Manager of Guangzhou Branch, Deputy General Manager of International Business Department, General Manager of New York Branch, General Manager of Financial Market Department, Chief Executive Officer of Financial Market Business Center/Precious Metals Business Center. Mr. Tu also held various of positions in the Bank from August 1989 to November 2000, including credit clerk of Overseas Business Department of Beijing Branch, Deputy Section Chief and Deputy Manager of Foreign Exchange and Deposit Department, Vice Chairman and Deputy General Manager of the Preparatory Committee of Sanyuan Sub-branch, Deputy Manager of the Foreign Exchange Credit Department and Division Chief of the General Administration of Foreign Exchange Business. Mr. Tu obtained his Bachelor's Degree in Economics from Renmin University of China in 1989 and Master's Degree in Economics from Fudan University in 1998.

Mr. NG Siu On, Bocom-HSBC Strategic Cooperation Consultant. Mr. Ng has been HSBC-BoCom Strategic Cooperation Consultant of the Bank since March 2013. Mr. Ng held various positions in HSBC including Regional Director of the New Territories of HSBC Hong Kong, Associate Vice President and General Manager of the Canadian Toronto Branch Network of HSBC Bank, Deputy General Manager and Director of Branches of HSBC's Area Office China, Senior Manager of Commercial Banking, Director of Medium-sized Enterprises, Head of Corporates of HSBC's Commercial Banking in Hong Kong and Special Consultant for HSBC's Asia-Pacific CEO on Greater China business from June 1989 to March 2013. Mr. Ng currently serves as Honorary Advisor of the Hong Kong Institute of Bankers. Mr. Ng obtained his MBA's degree from the Chinese University of Hong Kong in 1984.

BOARD OF SUPERVISORS

In accordance with the requirements of the company law of the PRC and the Bank's Articles of Association, the board of supervisors of the Bank monitors the Board's execution of the resolutions approved at shareholders' meetings and decisions made within the Board's scope of power. The board of supervisors of the Bank also monitors the senior management's implementation of resolutions approved at shareholders' general meetings and Board's meetings, and the business activities that were carried out within the senior management's scope of power. The board of supervisors is also responsible for monitoring the performance of the directors and senior management, and for investigating the Bank's financial condition.

The board of supervisors of the Bank currently comprises 10 members including three shareholder supervisors, four external supervisors and three employee designated supervisors.

The board of supervisors of the Bank includes the following members:

Mr. Cai Yunge, Chairman of the Board of Supervisors, is a senior economist. From July 2016 to September 2020, Mr. Cai served as the Deputy General Manager of China Everbright Group Ltd., the Vice-chairman of the board of directors and General Manager of China Everbright Holdings Company Limited (from October 2016), Chairman of the board of directors of China Everbright Limited (from December 2016), Chairman of the board of directors of China Everbright International Limited (from December 2016), and the Non-executive Director of China Everbright Bank Company Limited (from May 2017). From April 2013 to July 2016, he served as the General Manager of the General Office, member of the Party Committee (Executive Vice President Level), and Secretary to the board of directors of China Everbright Bank Company Limited (from August 2014). From November 2008 to April 2013, he served as the Deputy Director of Guangdong Provincial Development and Reform Commission. Mr. Cai served as the Deputy Director of the Second Banking Supervision Division and the Director of the General Office of the China Banking Regulatory Commission from April 2004 to November 2008. From August 1996 and April 2004, he worked at the PBOC, successively serving as the cadre, Deputy Chief Staff Member and Chief Staff Member of the Planning and Capital Department, Credit Management Department and the Second Banking Supervision Department. Mr. Cai obtained his doctorate in Economics from the Financial Research Institute of the PBOC in 2008.

Mr. ZHANG Minsheng, Shareholder Supervisor. Mr. Wang has been a Shareholder Supervisor of the Bank since March 2019. Mr. Zheng is a Senior Accountant at researcher level. From April 2019 till January 2020 he has worked as Chief Accountant of the Aviation Industry Corporation of China, Ltd. From September 2016 to April 2019 he served as Chief Accountant of Aero Engine Corporation of China and Chairman of AECC Aviation Power Co., Ltd. (concurrently serving as Executive Director (Legal Representative) of AECC Asset Management Co., Ltd. from November 2016 to March 2019). From April 2016 to September 2016 he worked as Chief Accountant of Aero Engine Corporation of China. From October 2015 to April 2016 he worked as Director and General Manager of AVIC Capital Co., Ltd. From September 2014 to October 2015 he served as Chairman of Xi'an Aero-Engine Corporation and Deputy General Manager of AECC Aero-Engine Control Ltd. (concurrently serving as General Manager of AECC Aero-Engine Control Ltd., Xi'an Branch from November 2014 to October 2015 and concurrently serving as General Manager, Director and Vice Chairman of Xi'an Aero-Engine Plc from September 2014 to November 2014). From May 2013 to September 2014 he served as Chairman of Xi'an Aero-Engine Corporation and served as General Manager, Director and Vice Chairman of Xi'an Aero-Engine Plc. From October 2011 to May 2013 he worked as General Manager and Vice Chairman of Xi'an Aero-Engine Corporation and Chairman of the Board of Supervisors of Xi'an Aero-Engine Plc. From August 2008 to October 2011 he worked as Director of the Audit Department of Aviation Industry Corporation of China, Ltd. From June 1999 to August 2008 he successively served as Deputy Chief, Chief and Deputy Director of the Financial Audit Department and Deputy Director and Director of the Financial Department of China Aviation Industry Corporation II. From June 1993 to June 1999 he successively served as Principal Staff Member and Senior Staff Member of the Bureau of Finance of the Aviation Industry Corporation of China, Ltd. From August 1990 to June 1993 he worked as Staff Member and Principal Staff member of the Department of Finance of the Ministry of Aerospace Industry. Mr. Zhang Minsheng graduated from Dongbei University of Finance and Economics with a Bachelor's degree in Economics in 1990 and obtained an EMBA degree from HEC Paris in 2009.

Mr. WANG Xueqing, Shareholder Supervisor. Mr. Wang has been a Shareholder Supervisor of the Bank since June 2017. Mr. Wang has been Chief Accountant of Daqing Oilfield Co., Ltd. (Daqing Petroleum Administration Bureau) and member of the Party committee of Daqing Oilfield Co. Ltd. since October 2016. Mr. Wang served as Director of Finance Department of Daqing Oilfield Company from October 2009 to February 2018. From July 2008 to October 2009, Mr. Wang was appointed as Director of Financial Assets of the First Department in Daqing Oilfield Company. He was Head of the Accounting Department (Center) of the Financial Assets Department in Daqing Oilfield Company and became Section Chief, First Deputy Director and Director from November 1999 to July 2008. At present, Mr. Wang holds difference positions including Chairman of the Board of Directors of Daqing Petroleum (Hong Kong) Co. Ltd. and Daqing Energy (Hong Kong) Co. Ltd., Director of Qingdao Qingxin Plastic Co. Ltd. and DPS Indonesia Co. Ltd., Chairman of the Board of Supervisors of Daqing Oilfield Lishen Pump Co. Ltd. and PTINDOSPECENERGY and Vice President of the Sixth Council of China Association of Plant Engineering. Mr. Wang graduated from Tianjin University of Finance and Economics with Master's degree in June 2002, majoring in Accounting. He is also a Professorate Senior Accountant.

Ms. XIA Zhihua, External Supervisor. Ms. Xia has been External Supervisor of the Bank since June 2016. Ms. Xia served as Chairman of the Board of Supervisors of China Life Insurance Co. Ltd. from March 2006 to July 2015. She was accredited by the State Council to serve as Deputy Head of the General Office of the Board of Supervisors, Supervisor (Deputy Director General Level), Head of the General Office of the Board of Supervisors and Supervisor (Bureau Level) of China Great Wall Asset Management Corporation, China Economic Development Trust and Investment Company, China Life

Insurance (Group) Company and China Export & Credit Insurance Corporation successively from July 2000 to December 2005. Moreover, Ms. Xia served as Associate Inspector of National Treasury Bureau of the Ministry of Finance in June 2000. She also served as Deputy Director-General of National Debt Financial Department and Department of National Debt of the Ministry of Finance from July 1997 to June 2000. She successively served as Principal Staff, Deputy Division Chief and Division Chief of State Debt Management Department of the Ministry of Finance from December 1988 to June 1997 and Principal Staff of Financial Department of Cultural and Educational Administrative Affairs from December 1984 to November 1988. Ms. Xia obtained Master's degree in Economics from Xiamen University in 1984. At present, Ms. Xia serves as an International Internal Auditor and a Senior Economist, enjoying the special government allowance awarded by the State Council.

Mr. LI Yao, External Supervisor. Mr. Li has been an External Supervisor of the Bank since October 2017. Mr. Li has been teaching at the School of Finance, Shanghai University of Finance and Economics since April 2000 and has been Vice Professor and Professor successively. He served as Vice President of School of Finance from December 2014 to January 2018. During the period from September 2002 to September 2003, Mr. Li served as Vice Professor in visiting scholar (CCSEP) program for the purpose of governmental exchange between Chinese and Canadian exchange at the University of Toronto Rotman. Mr. Li was appointed as Professor in the management buyout and private equity research center of Nottingham University Business School from August 2009 to January 2010. Mr. Li has been serving as Professor in visiting Sino-US Fulbright Scholar Program at Boston College from August 2018 to July 2019. Mr. Li also served as Independent Director of Chongqing Rural Commercial Bank Co. Ltd. from October 2014 to December 2015. Mr. Li majored in International Finance and graduated from East China Normal University with the title of Ph.D. in Economics in July 1998.

Mr. CHEN Hanwen, External Supervisor. Mr. Chen has been an External Supervisor of the Bank since April 2019. Mr. Chen is currently a Tier 2 Professor and UIBE (Hui Yuan) distinguished Professor of the University of International Business and Economics (UIBE), Doctoral Supervisor, Coordinator of postdoctoral programs, Chair Professor of China Business Executives Academy, Dalian, Co-editor-in-chief of China Journal of Accounting Studies published by the Accounting Society of China, Editorial Board Member of the Audit Research published by China Audit Society, Member of the Professional Title Assessment Committee of the National Audit Office, Member of the Professional Steering Committee of the Chinese Institute of Certified Public Accountants, Executive Director of China Audit Society and selected for Accounting Master Training Project by the Ministry of Finance. Mr. Chen worked as the Secretary General of the Academic Committee of Xiamen University from January 2014 to June 2015, the Vice President of the Graduate School from August 2012 to June 2015, the vice president of School of Management from June 2008 to August 2012, Dean of the Accounting Department of Xiamen University from May 2004 to December 2008, and received the prestigious Xiamen University Nanqiang Award for outstanding contributions. Mr. Chen currently acts as an Independent Director of Yango Group Co., Ltd (form April 2017 to April 2020), Dalian Wanda Commercial Properties (from May 2017 to March 2022), Beijing Sanyuan Gene Pharmacy Co. Ltd.(from November 2018 to November 2021), Xiamen International Bank (from May 2013 to May 2019) and Xiamen Bank (from January 2015 to January 2021). Mr. Chen acted as independent non-executive director of Industrial Securities from September 2011 to November 2017 and Minsheng Holdings from December 2015 to December 2017. Mr. Chen received his Doctoral degree in Economics from Xiamen University in 1997.

Mr. JU Jiandong, External Supervisor. Mr. Ju has been External Supervisor of the Bank since June 2020. Mr. Ju is currently a unigroup Chair Professor of PBC School of Finance in Tsinghua University, distinguished Professor under the Chang Jiang Scholars Programme of the Ministry of Education, and a distinguished Professor of the School of International Business Administration of Shanghai University of Finance and Economics. Mr. Ju Jiandong has served as an Independent Director of COFCO Meat Holdings Limited since November 2018. From March 2014 to September 2017, he worked as Dean and Professor of the School of International Business Administration of Shanghai

University of Finance and Economics. From August 2009 to July 2015, he worked as a Professor at the School of Economics and Management of Tsinghua University. From May 2011 to August 2014, he worked as a (tenured) Professor of Economics at the University of Oklahoma. Mr. Ju jiandong served as an Adviser to the World Bank in June and August 2009 and March 2011. From June 2007 to August 2009, he served as a Resident Scholar in the Research Department of the International Monetary Fund. Mr. Ju Jiandong received his Ph. D. in Economics from Pennsylvania State University in May 1995.

Mr. DU Yarong, Employee Supervisor. Mr. Du has been an Employee Supervisor of the Bank since August 2010 and has been serving as Deputy Secretary of Discipline Inspection Committee, Head (General Manager) of Bureau of Supervision (Anti-fraud Department) of the Bank since January 2015. He served as Deputy Secretary of Discipline Inspection Committee and Head of the Office of Discipline Investigation and Supervision of the Bank from November 2009 to January 2015. He was Deputy General Manager in the Bank's Zhejiang Branch from January 2009 to November 2009 and served as Deputy General Manager in the Bank's Hangzhou Branch from October 2004 to January 2009. Mr. Du was Head of the General Office in the Bank's Hangzhou Branch from April 2004 to October 2004 and was General Manager in the Xiaoshan Sub-branch of the Hangzhou Branch from May 2001 to April 2004 (among which he took a temporary post in the Internal Audit Control Division at the Bank's Head Office from April 2003 to March 2004). Mr. Du also served as Managerial Staff (Division Chief Level), Deputy Head and Head of the Party Committee Office in the Bank's Hangzhou Branch from October 1997 to May 2001. Mr. Du graduated from Hangzhou Normal University in 1986.

Mr. GUAN Xingshe, Employee Supervisor. Mr. Guan has been an Employee Supervisor of the Bank since October 2018 and Director of the Office of the Board of Supervisors since August 2018. From September 2011 to August 2018, Mr. Guan served as General Manager of Department of General Affairs of the Bank. Mr. Guan held various positions from May 2003 to September 2011, including Deputy Manager of Henan Branch (Zhengzhou), Secretary of the Commission for Discipline Inspection (from September 2007 to September 2011), Senior Credit Executive (from May 2006 to June 2008). He also held several positions from December 1994 to May 2003, including Deputy Division Chief of Finance and Accounting Department of Zhengzhou Branch, Deputy Division Chief of Internal Audit Division (in charge of overall work), Deputy Director of Finance and Accounting Department (in charge of overall work), Division Chief of Finance and Accounting Department (during which he took a temporary post in Internal Audit Division of the Head Office from April 2002 to March 2003). From April 1993 to December 1994, Mr. Guan served as Deputy Division Chief of Financial Audit Department of Zhengzhou Audit Bureau. Mr. Guan obtained his Bachelor's Degree in Economics from Zhongnan University of Economics and Law in 1988 and his Master's Degree in Economics from Xiamen University in 1999.

Mr. WANG Xuewu, Employee Supervisor. Mr. Wang has been an Employee Supervisor of the Bank since May 2019. Mr. Wang has worked as the General Manager of the Employees Work Department of the Bank (chief at the provincial level) from February 2019 till present. From August 2016 to February 2019 he served as the Deputy General Manager of the Employees Work Department of the Bank (chief at the provincial level). From June 2015 to August 2016 he worked as the Secretary of the Party Committee and General Manager of the Bank's Suzhou Branch (chief at the provincial level). From October 2012 to June 2015 he worked as the Secretary of the Party Committee and General Manager of the Bank's Guangxi Zhuang Autonomous Region Branch. From May 2009 to October 2012 he worked as the General Manager of the Retail Credit Management Department and the General Manager of the Small Business Loan Department of the Bank. From November 2007 to May 2009 he served as the Deputy General Manager of the Retail Credit Management Department (in charge of daily work) and the Deputy General Manager of the Small Business Loan Department of the Bank (in charge of daily work). From July 2006 to November 2007 he worked as the Deputy General Manager of the Asset Preservation Department of the Bank (during which he concurrently served as the Deputy Director of Supervision Department II of China Banking Regulatory Commission for a term of office of six months). From January 2002 to July 2006 he worked as a member of the Party

Committee, Deputy General Manager and Senior Credit Executive Officer of the Bank's Hefei Branch. From July 1999 to January 2002 he worked as the Chief of the Credit Management Department of the Bank's Hefei Branch (during which he concurrently worked as the Deputy Chief of the Comprehensive Credit Line Management Department of the Head Office of the Bank from April 2001 to March 2002). From April 1998 to July 1999 he worked as the Chief of the Credit Management Department of the Bank's Hefei Branch. From May 1997 to April 1998 he worked as the Director of the Auditing Department of the Bank's Hefei Branch. From July 1985 to May 1997 he worked as the Credit Section Clerk, Deputy Section Chief, Reform and Trust Section Chief, Deputy General Manager and General Manager of Guichi Branch of Anhui Province of the Industrial and Commercial Bank of China. Mr. Wang obtained an EMBA degree from Shanghai University of Finance and Economics in 2009.

BOARD COMMITTEES

The Board delegates certain responsibilities to various committees. The Board has established a strategy committee, audit committee, risk management and related party transactions control committee, personnel and remuneration committee, and social responsibility and consumer protection committee. These committees are constituted by certain directors and they report and are accountable to the Board. As required by the Bank's Articles of Association, each committee must have at least three directors. The Audit Committee, Risk Management and Related Party Transactions Control Committee and Personnel and Remuneration Committee are respectively headed by an independent non-executive director.

The Strategy Committee (Inclusive Finance Development Commission)

The Strategy Committee formulating the operations and management objectives and long-term development plans of the Bank, regularly analyses and evaluates the results of the Bank's capital management, conducts research and makes recommendations on the Bank's major equity investment plans. The committee supervises and inspects the implementation of the annual business plan and investment plan, inspects and assesses the implementation of corporate governance system and makes recommendations for improving the corporate governance policies and system. Furthermore, it formulates and reviews the strategic plans for the development of inclusive financial business, operating plan, fundamental policies and procedures, risk strategy plans and evaluation measures, in order to evaluate the effectiveness of development of inclusive finance, etc. As at the date of this Offering Circular, the Strategy Committee comprised six members, including Mr. Ren Deqi, Mr. Liu Jun, Mr. He Zhaobin, Mr. Song Hongjun, Mr. Chen Junkui and Mr. Jason Yeung Chi Wai, with Mr. Ren Deqi, an Executive Director, serving as the chairman of the Strategy Committee. In the first half of 2020, the Strategy Committee held two meetings, reviewed and approved 17 proposals and reports including the 2020 business plan and presented the recommendations to the Board of Directors.

The Audit Committee

The Audit Committee is mainly responsible for is mainly responsible for proposing the appointments, change or removal of the Group's auditors, monitoring the Group's internal audit system and implementation, acting as the communication channels between the Group's internal and external auditors, reviewing the Bank's financial information and disclosure, examining the Group's accounting policies, financial position and financial reporting procedures and monitoring the implementation of the Group's internal controls. As at the date of this Offering Circular, the Audit Committee of the Board comprised seven members, including Ms. Li Xiaohui, Mr. He Zhaobin, Mr. Li Longcheng, Mr. Chen Junkui, Mr. Jason Yeung Chi Wai, Mr. Raymond Woo Chin Wan and Mr. Zhang Xiangdong, with Ms. Li Xiaohui, an Independent Non-executive Director, serving as the chairwoman of the Audit Committee. In the first half of 2020, the Audit Committee held two meetings, and reviewed and approved 16 proposals and reports, including the 2019 annual report, the 2019 annual results announcement, the results announcement for first quarter 2020, the internal audit report, the 2019 working report, the 2019 profit distribution plan and the 2020 working plan.

The Risk Management and Related Party Transactions Control Committee

The Risk Management and Related Party Transactions Control Committee is mainly responsible for monitoring and evaluating the risk management and controls of the Bank in areas of credit, market, operations and compliance, periodically assessing the Bank's risks, management status, risk tolerance level, supervising and evaluating the risk management of America-related operations, reviewing significant related party transactions, significant fixed asset investments, asset disposals, asset pledges or external guarantees, reviewing to anti-money laundering reports regularly and making recommendations to the Board of Directors on improving the Bank's risk management and internal controls. As at the date of this Offering Circular, the Risk Management and Related Party Transactions Control Committee comprised six members, including Mr. Zhang Xiangdong, Mr. Song Hongjun, Mr. Liu Haoyang, Mr. Cai Haoyi, Mr. Shi Lei and Ms. Li Xiaohui, with Mr. Zhang Xiangdong, an Independent Non-executive Director, serving as the chairman of the Risk Management and Related Party Transactions Control Committee. In the first half of 2020, the Risk Management and Related Party Transactions Control Committee held three meetings, reviewed and approved 15 proposals and reports, including the 2019 assessment report of comprehensive risk management and the 2020 risk preference and risk policies and presented the recommendations to the Board of Directors.

The Personnel and Remuneration Committee

The Personnel and Remuneration Committee is primarily responsible for making recommendations to the Board of Directors on its scale and structure according to the Bank's operation results, the scale of assets and the structure of shareholding, approving and amending the policies on diversification of members of the Board of Directors, making recommendations to the Board of Directors on developing the criteria and procedures for election and assessment of Directors and Senior Management formulating the selection procedures and assessment criteria for the Bank's Directors and senior management personnel and reviewing the basic systems and policies of the Bank's compensation management. The Personnel and Remuneration Committee performed the functions of both a nomination committee and a remuneration Committee to optimise the Bank's corporate governance structure and improve the effectiveness of the Bank's operations. As at the date of this Offering Circular, the Personnel and Remuneration Committee comprises four members, including Mr. Cai Haoyi, Mr. Li Longcheng, Mr. Raymond Woo Chin Wan and Mr. Shi Lei, with Mr. Cai Haoyi, an Independent Non-executive Director, serving as the chairman of the Personnel and Remuneration Committee. In the first half of 2020, the Personnel and Remuneration Committee held four meetings, and reviewed and approved 15 proposals, including the 2019 renumeration plan for directors and the 2019 renumeration plan for senior management and presented recommendations to the Board of Directors.

The Social Responsibility (Environmental, Social and Governance) and Consumer Protection Committee

The Social Responsibility (Environmental, Social and Governance) and Consumer Protection Committee is primarily responsible for formulating the Bank's social responsibility strategies and policies, reviewing the strategies, policies and goals on protecting the consumers' rights, monitoring, inspecting and evaluating the fulfilment of the Bank's social responsibility as well as strategies, policies, plans, measures for consumer rights protection and approving external donations according to the authorisation of the Board of Directors. As at the date of this Offering Circular, the Social Responsibility (Environmental, Social and Governance) and Consumer Protection Committee comprised three members, including Mr. Liu Jun, Mr. Chan Siu Chung and Mr. Liu Haoyang, with Mr. Liu Jun, an Executive Director, serving as the chairman of the Social Responsibility (Environmental, Social and Governance) and Consumer Protection Committee. In the first half of 2020, the Social Responsibility (Environmental, Social and Governance) and Consumer Protection Committee held three meetings, and considered 11 proposals and reports, including the 2019 corporate social responsibility report and the 2019 report on protecting the consumers' rights and presented recommendations to the Board of Directors.

OVERVIEW

The banking industry in the PRC is highly regulated. The principal regulatory authorities in the PRC banking industry include the CBRC, which has been incorporated in the newly-established China Bank and Insurance Regulatory Commission of the PRC (中國銀行保險監督管理委員會) ("CBIRC"), and the PBOC. The CBIRC is responsible for supervising and regulating banking institutions and insurance companies, and the PBOC, as the central bank of the PRC, is responsible for formulating and implementing monetary policies. The principal laws and regulations relating to the PRC banking industry are the People's Bank of China Law of the People's Republic of China (中華人民共和國中國人民銀行法), the Commercial Banking Law of the People's Republic of China (中華人民共和國商業銀行法) and the Banking Supervision and Regulatory Law of the People's Republic of China (中華人民共和國銀行業監督管理法), and the rules and regulations established thereunder.

CBIRC

Functions and Powers

The CBIRC is the principal regulatory authority in the PRC responsible for the supervision and regulation of banking institutions and insurance companies operating within the PRC, including commercial banks, urban credit cooperatives, rural credit cooperatives, other deposit-taking financial institutions and policy banks, as well as certain non-bank financial institutions, such as asset management companies, trust and investment companies, finance companies, financial leasing companies and other financial institutions that can only be set up with the CBIRC's approval. The CBIRC is also responsible for the supervision and regulation of the entities established by domestic financial institutions outside the PRC and the overseas operations of such institutions. According to the Banking Supervision and Regulatory Law of the People's Republic of China (中華人民共和國銀行業監督管理法) and relevant regulations, the CBIRC's primary regulatory responsibilities in relation to banking institutions include:

- formulating and issuing rules and regulations governing banking institutions and their activities;
- examining and approving the establishment, change and termination of banking institutions and their scope of business, as well as granting banking licences to commercial banks and their branches;
- regulating the business activities of banking institutions, including their products and services offered;
- setting qualification requirements for, and approving and overseeing the nomination of, directors and senior management personnel of banking institutions;
- setting prudential guidelines and standards for risk management, internal control, capital adequacy, asset quality, allowance for impairment losses, risk concentration, related party transactions and asset liquidity requirements for banking institutions;
- conducting on-site examinations and off-site surveillance of the business activities and risk levels of banking institutions;
- imposing integrated supervision on banking institutions;

- establishing emergency disposal mechanisms with relevant authorities in the banking sector and formulating emergency disposal plans;
- imposing corrective and punitive measures for violations of applicable banking regulations; and
- drafting and publishing statistics and financial reports of national banking institutions.

Supervision over Capital Adequacy

In February 2004, the CBRC (the predecessor of the CBIRC) issued the Capital Adequacy Measures applicable to all commercial banks in the PRC. The Capital Adequacy Measures provided for a phase-in period whereby all domestic banks must have met the minimum ratios of capital adequacy by 1 January 2007.

On 3 July 2007, the CBRC issued an amendment to the Capital Adequacy Measures to set forth new and more stringent capital adequacy guidelines that must be complied with from 3 July 2007 onwards.

On 7 June 2012, the CBRC announced the Capital Management Rules to replace the Capital Adequacy Measures, setting up a new capital adequacy regulatory system by reference to Basel III to replace the Capital Adequacy Measures. The Capital Management Rules have been in effect since 1 January 2013. In particular, the Capital Management Rules establish a unified and comprehensive capital adequacy regulatory system, redefine the meaning of capital, enlarge the scope of risks to be covered by capital, require the scientific classification and differentiated supervision of the capital adequacy levels of commercial banks and give commercial banks a transitional period for meeting the new capital adequacy requirements.

Under the Capital Management Rules, capital adequacy ratios are calculated according to the following formulae in accordance with CBRC requirements:

$$\text{Capital Adequacy Ratio} = \frac{\text{Total capital} - \text{corresponding capital deductions}}{\text{Risk-weight assets}} \times 100\%$$

$$\text{Tier 1 Capital Adequacy Ratio} = \frac{\text{Tier 1 capital} - \text{corresponding capital deductions}}{\text{Risk-weight assets}} \times 100\%$$

$$\text{Core Tier 1 Capital Adequacy Ratio} = \frac{\text{Core Tier 1 capital} - \text{corresponding capital deductions}}{\text{Risk-weight assets}} \times 100\%$$

On 29 November 2012, the CBRC released *The Guiding Opinions on Capital Instrument Innovation of Commercial Banks* (中國銀監會關於商業銀行資本工具創新的指導意見) (the "Guiding Opinions") which was further revised on 22 November 2019, allowing and encouraging commercial banks to develop capital instruments (including tier 2 capital instruments) that comply with the Capital Management Rules. Pursuant to the Guiding Opinions, Additional Tier 1 Capital instruments and tier 2 capital instruments issued by a commercial bank after 1 January 2013 must contain a provision that requires such instruments to be either written off or converted into common stock upon the occurrence of a triggering event. A triggering event for Additional Tier 1 Capital instruments occurs when the Core Tier 1 Capital Adequacy Ratio of the commercial bank falls to 5.125 per cent. or below. A triggering event for tier 2 capital instruments occurs upon the earlier of: (i) a decision of write-down or share conversion, without which the commercial bank would become non-viable, as determined by the CBRC; or (ii) a decision to make a public sector injection of capital or equivalent support, without which the commercial bank would have become non-viable, as determined by relevant authorities. On 18 January, 2018, the CBRC, the PBOC, the CSRC, the China Insurance Regulatory Commission and the State Administration of Foreign Exchange jointly released The Opinions on Further Supporting Commercial Banks' Innovation on Capital Instruments (中國銀監會、中國人民銀行、中國證監會、

中國保監會、國家外匯管理局關於進一步支持商業銀行資本工具創新的意見) (the "Opinions"), further supporting the beneficial exploration of commercial banks for innovating capital instruments, expanding the channels for issuance of capital instruments, increasing capital instrument types, creating favourable conditions for commercial banks to issue capital bonds without fixed terms, Tier-2 capital bonds to be converted into shares, capital bonds containing regular share conversion clauses, bonds with total loss-absorbing capacity and other capital instruments and improving the approval of issuance of capital instruments.

Examination and Supervision

The CBIRC, through its headquarters in Beijing and its bureaus throughout the PRC, monitors the operations of banks and their branches through on-site examinations and off-site surveillance. On-site examinations generally include inspecting a bank's business premises, interviewing its employees, senior management and directors for an explanation of significant issues relating to its operations and risk management and reviewing relevant documents and materials kept by the bank. The CBIRC also conducts off-site surveillance by reviewing financial and other reports regularly submitted by banks and monitoring banks' business activities and risk exposure status to evaluate and analyse the operational risk of the banks.

If a banking institution is not in compliance with an applicable banking regulation, the CBIRC is authorised to impose corrective and punitive measures, including imposing fines, ordering the suspension of certain business activities, imposing restrictions on dividends and other forms of distributions and asset transfers and suspending the opening of new branches. In extreme cases or when a commercial bank fails to take corrective action within the time period specified by the CBIRC, the CBIRC may order the banking institution to suspend operations and may revoke its operating-business licence. In the event of a crisis or failure within a banking institution, the CBRC may assume control over, or facilitate the restructuring of, such banking institution.

PBOC

As the central bank of the PRC, the PBOC is responsible for formulating and implementing monetary policies and maintaining the stability of the PRC financial markets. According to the *People's Bank of China Law of the People's Republic of China* (中華人民共和國中國人民銀行法) and relevant regulations, the PBOC is empowered to:

- issue and implement orders and regulations in relation to its duties;
- formulate and implement monetary policy in accordance with laws;
- issue Renminbi and administer its circulation;
- regulate the inter-bank money market and the inter-bank bond market;
- implement foreign exchange controls and regulate the inter-bank foreign exchange market;
- supervise and regulate the gold market;
- hold, administer and manage state reserves of foreign exchange and gold;
- manage the national treasury;
- safeguard the normal operation of payment and clearing systems;

- guide and coordinate the financial industry in its anti-money laundering activities and take responsibility for monitoring capital in respect of anti-money laundering;

- take responsibility for financial industry statistics, surveys, analyses and forecasts;

- participate in international financial activities in its capacity as the central bank of the PRC; and

- undertake other duties as prescribed by the State Council.

On 15 August 2013, the State Council issued the Reply of the State Council on the Establishment of the Inter-departmental Coordination Joint Meeting System for Financial Supervision (國務院關於同意建立金融監管協調部際聯席會議制度的批覆), which aims to build up such system. The PBOC shall take the lead at the joint meetings, with the CBRC, the CSRC, the CIRC and the SAFE being the major members. The NDRC and the MOF may be invited to attend the joint meetings, if necessary.

On 11 January 2017, the PBOC promulgated the PBOC Notice on Issues Relating to the Macro-prudential Management of Overall Cross-border Financing (《中國人民銀行關於全口徑跨境融資宏觀審慎管理有關事宜的通知》) (the "PBOC Notice"), which came into effect from the date of promulgation and imposes certain filing, reporting and other requirements on PRC companies and financial institutions that engage in cross-border financing activities. According to the consultation with PBOC regarding the relevant filing and reporting requirements under the PBOC Notice, the PBOC hold the opinion that if (a) the proceeds raised from the issuance under the Programme are not repatriated into the PRC, and (b) the PRC parent bank takes the view that its offshore branch is not a PRC entity for the purpose of the PBOC Notice, then the PBOC Notice is not applicable to the notes issuance of its offshore branch. In connection with the update of the Programme or any issuance by an offshore branch under the Programme, the Bank holds the view that the PBOC Notice is not applicable and consequently has not made and does not intend to make any filing with the PBOC under the PBOC Notice. As advised by the PRC legal advisors, considering (a) the update of the Programme (without any issuance hereunder) and the entering into of the contracts solely in connection with the update does not amount to "cross-border financing activities" under the PBOC Notice; and (b) an issuance by an offshore branch where the proceeds will not be repatriated into the PRC does not involve any "cross-border financing activities" under the PBOC Notice, the update of the Programme and any issuance by the Issuer with its proceeds not being repatriated into the PRC shall not trigger filing requirements under the PBOC Notice. Furthermore, if the proceeds of the Notes are repatriated into the PRC, the PBOC Notice may be applicable for the issuance and thus the Issuer shall make filings with the PBOC regarding the Notes according to the requirements under the PBOC Notice. It should be noted that the PBOC Notice is new and the implementation rules have not yet been published, and if following the date of this Offering Circular, the relevant Issuer or the Bank is required to make any filing, reporting or take other steps to comply with the PBOC Notice, the relevant Issuer or the Bank will take the necessary steps to comply with such requirements.

NDRC

On 14 September 2015, the NDRC published the Notice on Promoting the Reform of the Filing and Registration System for Issuance of Foreign Debt by Corporates (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) (the "Circular 2044"), which came into effect on the same date. The Circular 2044 applies to the offshore bonds or loans with a maturity of more than one year, regardless of whether they are denominated in RMB or a foreign currency, that are issued by an onshore entity or its controlled offshore branches and subsidiaries, including international bond issuances and mid- and long-term international commercial loans.

On 18 December 2015, the NDRC published the Guideline on the Issuance of Foreign Debt by Corporates (企業境外發行債券指引) (the "Guideline"), which further clarifies certain issues in the Circular 2044. According to the Guideline, the entities subject to the filing requirements in the Circular 2044 include onshore enterprises (including financial entities) and its controlled offshore enterprises or branches; and the "foreign debts" under the Circular 2044 include but are not limited to ordinary notes, senior notes, financial notes, perpetual notes, convertible notes, preferred shares and other offshore debt financing tools. In addition, the Guideline further requires the onshore entities which failed to complete the pre-issuance registration by the promulgation of the Guideline to complete the pre-issuance registration by the end of January 2016, and those onshore entities which failed to submit to the NDRC the relevant information in relation to the issuance of the offshore notes should complete the submission as soon as practicable. Furthermore, according to the Guideline the NDRC will set a "blacklist" and a credit information exchange platform on the credit information for those entities or intermediaries which have provided false information in its registration with the NDRC, and will impose punishment with other government authorities on such entities.

Furthermore, the NDRC issued the Filings and Registrations Certificate of Issuance by Enterprises of Foreign Debt (企業借用外債備案登記證明) (發改辦外資備[2020]582號) on 27 August 2020 (the "NDRC Certificate"). The recipient may at its own discretion issue notes of any amount up to the granted amount under such annual foreign debt quota, although it still has to make post-issuance filing within 10 business days after the completion of the relevant notes issuance. As an offshore branch of the Bank, the Issuer is entitled to use the Bank's annual quota for the issuance of the Notes based on the Bank's confirmation. As such separate pre-issuance registration with the NDRC with respect to the Notes is not required as the Notes will be issued within the size and terms of the aforesaid quota.

As new regulations, the Circular 2044, the Guideline and the NDRC Certificate will be subject to interpretation and application by the relevant PRC authorities, and it remains unclear what impact non-compliance will have on the legality, enforceability and validity of the Notes.

TAXATION

The following summary of certain PRC and Hong Kong of the purchase, ownership and disposal of the Notes is based upon applicable laws, regulations, rulings and decisions in effect as at the date of this Offering Circular, all of which are subject to change (possibly with retroactive effect). This discussion does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes and does not purport to deal with consequences applicable to all categories of investors, some of which may be subject to special rules. Neither these statements nor any other statements in this Offering Circular are to be regarded as advice on the tax position of any holder of the Notes or any persons acquiring, selling or otherwise dealing in the Notes or on any tax implications arising from the acquisition, sale or other dealings in respect of the Notes. Persons considering the purchase of the Notes should consult their own tax advisers concerning the possible tax consequences of buying, holding or selling any Notes under the laws of their country of citizenship, residence or domicile.

PRC Taxation

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 advisers 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. Reference is made to PRC taxes from the taxable year beginning on or after 1 January 2008.

Pursuant to the New Enterprise Income Tax Law and its implementation regulations, enterprises that are established under laws of foreign countries and regions (including Hong Kong, Macau and Taiwan) but whose "de facto management bodies" are within the territory of the PRC shall be PRC tax resident enterprises for the purpose of the New Enterprise Income Tax Law and they shall pay enterprise income tax at the rate of 25 per cent. in respect of their income sourced from both within and outside the PRC. If relevant PRC tax authorities decide, in accordance with applicable tax rules and regulations, that the "de facto management body" of the Issuer is within the territory of the PRC, the Issuer may be held to be a PRC tax resident enterprise for the purpose of the New Enterprise Income Tax Law and be subject to enterprise income tax at the rate of 25 per cent. for its income sourced from both within and outside PRC. As confirmed by the Issuer, as at the date of this Offering Circular, the Issuer has not been notified or informed by the PRC tax authorities that it is considered as a PRC tax resident enterprise for the purpose of the New Enterprise Income Tax Law. On that basis, holders of the Notes will not be subject to withholding tax, income tax or any other taxes or duties (including stamp duty) imposed by any governmental authority in the PRC in respect of the holding of the Notes or any repayment of principal and payment of interest made thereon.

However, there is no assurance that the Issuer will not be treated as a PRC tax resident enterprise under the New Enterprise Income Tax Law and related implementation regulations in the future. If the Issuer is treated as a PRC tax resident enterprise, the interest payable by the Issuer may be considered as income sourced inside the PRC. Pursuant to the New Enterprise Income Tax Law and its implementation regulations, any non-resident enterprise without establishment within the PRC or its income has no actual connection to its establishment inside the PRC may be subject to enterprise income tax at the rate of 10 per cent. on the passive incomes including interest payable sourced inside the PRC unless a lower tax treaty rate applies. Similarly, pursuant to the PRC Individual Income Tax Law, any non-resident individual Noteholders may be subject to individual income tax at the rate of 20 per cent. on the interest payable, which may be further decreased by an applicable tax treaty. Such income tax shall be withheld at source by the PRC entity making payment, who shall be obliged to withhold the tax amount from each payment or payment due. Accordingly, in the event the Issuer is deemed to be a PRC tax resident enterprise by the PRC tax authorities in the future, the Issuer shall withhold income tax from the payments of interest in respect of the Notes for any non-PRC enterprise and individual Noteholders. However, notwithstanding the potential withholding of PRC tax by the Issuer, the Issuer has agreed to pay additional amounts to holders of the Notes so that holders of the Notes would receive the full amount of the scheduled payment, as further set out in the Terms and Conditions of the Notes.

Non-PRC Noteholders will not be subject to the PRC tax on any capital gains derived from a sale or exchange of Notes consummated outside mainland China between non-PRC Noteholders, except however, if the Issuer is treated as a PRC tax resident enterprise under the New Enterprise Income Tax Law and related implementation regulations in the future, any gain realised by the non-PRC enterprise Noteholders from the transfer of the Notes may be regarded as being derived from sources within the PRC and accordingly would be subject to up to 10 per cent. of PRC withholding tax unless decreased or exempted by an applicable tax treaty. Further, non-PRC individual Noteholders may be subject to individual income tax at the rate of 20 per cent. on the capital gains, which may be decreased or exempted by an applicable tax treaty.

No PRC stamp duty will be chargeable upon the issue or transfer (for so long as the register of Noteholders is maintained outside the PRC) of a Note.

Hong Kong

Withholding Tax

No withholding tax is payable in Hong Kong in respect of payments of principal or interest on the Notes or in respect of any capital gains arising from the sale of the Notes.

Profits Tax

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 company 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).

Pursuant to the Exemption from Profits Tax (Interest Income) Order, interest income accruing to a person other than a financial institution, on deposits (denominated in any currency and whether or not the deposit is evidenced by a certificate of deposit) placed with, *inter alia*, an authorised institution in Hong Kong (within the meaning of section 2 of the Banking Ordinance (Cap. 155) of Hong Kong) is exempt from the payment of Hong Kong profits tax. This exemption does not apply, however, to deposits that are used to secure or guarantee money borrowed in certain circumstances. Provided no prospectus involving the issue of Notes is registered under the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong, the issue of Notes by the Bank is expected to constitute a deposit to which the above exemption from payment will apply.

Sums received by or accrued to a financial institution by way of gains or profits arising through or from the carrying on by the financial institution of its business in Hong Kong from the sale, disposal and redemption of Notes will be subject to Hong Kong profits tax. Sums received by or accrued to a corporation, other than a financial institution, by way of gains or profits arising through or from the carrying on in Hong Kong by the corporation of its intra-group financing business (within the meaning of section 16(3) of the IRO) from the sale, disposal or other redemption of Notes will be subject to Hong Kong profits tax.

Sums derived from the sale, disposal or redemption of Notes will be subject to Hong Kong profits tax where received by or accrued to a person, other than a financial institution, who carries on a trade, profession or business in Hong Kong and the sum has a Hong Kong source unless otherwise exempted. The source of such sums will generally be determined by having regard to the manner in which the Notes are acquired and disposed of.

In certain circumstances, Hong Kong profits tax exemptions (such as concessionary tax rates) may be available. Investors are advised to consult their own tax advisors to ascertain the applicability of any exemptions to their individual position.

Stamp duty

Stamp duty will not be payable on the issue of Bearer Notes by the Bank, provided either:

(a) 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

(b) 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 Bank on the issue of Bearer Notes at a rate of 3 per cent. of the market value of the 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 issued by the Bank. Stamp duty may be payable on any transfer of Registered Notes if the relevant transfer is required to be registered in Hong Kong. Stamp duty will, however, not be payable on any transfer of Registered Notes provided that either:

(i) such Registered Notes are denominated in a currency other than the currency of Hong Kong and are not repayable in any circumstances in the currency of Hong Kong; or

(ii) such Registered Notes constitute loan capital (as defined in the SDO).

If stamp duty is payable in respect of the transfer of Registered Notes it will be payable at the rate of 0.2 per cent. (of which 0.1 per cent. is payable by the seller and 0.1 per cent. is payable by the purchaser) normally by reference to the consideration or its value, whichever is higher. In addition, stamp duty is payable at the fixed rate of HK$5 on each instrument of transfer executed in relation to any transfer of the Registered Notes if the relevant transfer is required to be registered in Hong Kong.

POTENTIAL FATCA WITHHOLDING AFTER 2019

Pursuant to certain provisions of U.S. law, 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. A number of jurisdictions (including Hong Kong and the PRC) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("IGAs"), which modify the way in which FATCA applies in their jurisdictions. Certain aspects of the application of these rules 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, is not clear at this time.

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. Holders should consult their own tax advisors regarding how these rules may apply to their investment in the Notes. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Notes, no person will be required to pay additional amounts as a result of the withholding.

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"). However, Estonia has since stated that it will not participate.

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances. Primary market transactions referred to in Article 5(c) of Regulation (EC) No 1287/2006 are expected to 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 the 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 a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

UNITED KINGDOM TAXATION

The following is a summary of the Issuer's understanding of current United Kingdom law and published HM Revenue and Customs' practice relating only to the United Kingdom withholding tax treatment of payments of interest (as that term is understood for United Kingdom tax purposes) in respect of Notes. It does not deal with any other United Kingdom taxation implications of acquiring, holding or disposing of Notes. The United Kingdom tax treatment of prospective Noteholders depends on their individual circumstances and may be subject to change in the future. Prospective Noteholders who may be subject to tax in a jurisdiction other than the United Kingdom or who may be unsure as to their tax position should seek their own professional advice.

Payments of interest on the Notes that does not have a United Kingdom source may be made without deduction or withholding on account of United Kingdom income tax. If interest paid on the Notes does have a United Kingdom source, then payments may be made without deduction or withholding on account of United Kingdom income tax in any of the following circumstances.

The Issuer will be entitled to make payments of interest on the Notes without deduction of or withholding on account of United Kingdom income tax if:

(a) the Issuer is and continues to be a bank within the meaning of section 991 of the Income Tax Act 2007 ("ITA 2007"); and

(b) the interest on the Notes is and continues to be paid in the ordinary course of the Issuer's business within the meaning of section 878 ITA 2007.

Payments of interest on the Notes may be made without deduction of or withholding on account of United Kingdom income tax provided that the Notes carry a right to interest and the Notes are and continue to be listed on a "recognised stock exchange" within the meaning of section 1005 ITA 2007. The Hong Kong Stock Exchange is a recognised stock exchange. The Notes will satisfy this requirement if they are officially listed in Hong Kong in accordance with provisions corresponding to those generally applicable in EEA states and are admitted to trading on the Hong Kong Stock Exchange. Provided, therefore, that the Notes carry a right to interest and are and remain so listed on a "recognised stock exchange", interest on the Notes will be payable without deduction of or withholding on account of United Kingdom tax whether or not the Issuer is a bank and whether or not the interest is paid in the ordinary course of its business.

Payments of interest on Notes may be made without deduction of or withholding on account of United Kingdom tax where the maturity of the Notes is less than 365 days and those Notes do not form part of a scheme or arrangement of borrowing intended to be capable of remaining outstanding for more than 364 days.

In other cases, an amount must generally be withheld from payments of interest on the Notes that has a United Kingdom source on account of United Kingdom income tax at the basic rate (currently 20 per cent.), subject to any other available exemptions and reliefs. However, where an applicable double tax treaty provides for a lower rate of withholding tax (or for no tax to be withheld) in relation to a Noteholder, the HM Revenue and Customs can issue a notice to the Issuer to pay interest to the Noteholder without deduction of tax (or for interest to be paid with tax deducted at the rate provided for in the relevant double tax treaty).

Remittance of Renminbi into and outside the PRC

The Renminbi is not a freely convertible currency. The remittance of Renminbi into and outside the PRC is subject to controls imposed under PRC law.

Current Account Items

Under PRC foreign exchange control regulations, current account item payments include payments for imports and exports of goods and services, payments of income and current transfers into and outside the PRC.

Prior to July 2009, all current account items were required to be settled in foreign currencies. On July 2009, the PRC government promulgated Measures for the Administration of the Pilot Program of Renminbi Settlement of Cross-Border Trades (跨境貿易人民幣結算試點管理辦法) (the "Measures") and its implementation rules, pursuant to which designated and eligible enterprises are allowed to settle their cross-border trade transactions in Renminbi. Since July 2009, subject to the Measures and its implementation rules, the PRC has commenced a scheme pursuant to which Renminbi may be used for settlement of cross-border trade between approved pilot enterprises in five designated cities in the PRC including Shanghai, Guangzhou, Dongguan, Shenzhen and Zhuhai and enterprises in designated offshore jurisdictions including Hong Kong and Macau. On 17 June 2010, the PRC government promulgated the Circular on Issues concerning the Expansion of the Scope of the Pilot Program of Renminbi Settlement of Cross-Border Trades (關於擴大跨境貿易人民幣結算試點有關問題的通知), pursuant to which (i) the list of designated pilot districts was expanded to cover 20 provinces including Beijing, Shanghai, Tianjin, Chongqing, Guangdong, Jiangsu, Zhejiang, Liaoning, Shandong and Sichuan, and (ii) the restriction on designated offshore districts was lifted. Accordingly, any enterprises in the designated pilot districts and offshore enterprises are entitled to use Renminbi to settle any current account items between them (except in the case of payments for exports of goods from the PRC, such Renminbi remittance may only be effected by approved pilot enterprises in 16 provinces within the designated pilot districts in the PRC). On 27 July 2011, the PRC government promulgated the Circular on the Expansion of the Regions of Renminbi Settlement of Cross-Border Trades (關於擴大跨境貿易人民幣結算地區的通知), pursuant to which the list of designated pilot districts was expanded to the whole country. On 3 February 2012, the PRC government promulgated the *Circular on the Relevant Issues Pertaining to Administration over Enterprises Engaging in RMB Settlement of Export of Goods* (關於出口貨物貿易人民幣結算企業管理有關問題的通知), pursuant to which any enterprises in China which are qualified to engage in import and export trade are allowed to settle their goods export trade in Renminbi.

On 5 July 2013, the PBOC promulgated the Circular on Policies related to Simplifying and Improving Cross-border Renminbi Business Procedures (關於簡化跨境人民幣業務流程和完善有關政策的通知) (銀發 [2013] 168號), which, in particular, simplifies the procedures for cross-border Renminbi trade settlement under current account items. For example, PRC banks may conduct settlement for the PRC enterprises (excluding those on the Supervision List) upon the PRC enterprises presenting the payment instruction. PRC banks may also allow the PRC enterprises to make/receive payments under current account items prior to the relevant PRC bank's verification of underlying transactions (noting that verification of underlying transactions is usually a precondition for cross-border remittance).

On 23 October 2019, the SAFE promulgated Notice by the State Administration of Foreign Exchange of Simplifying Foreign Exchange Accounts (國家外匯管理局關於精簡外匯帳戶的通知, 匯發[2019]29號) which became effective on 1 February 2020. SAFE has decided to review and integrate certain foreign exchange accounts and further reduce the types of accounts in order to further intensify the reform of foreign exchange administration, simplifying the relevant business operating procedures, and facilitate true and compliant foreign exchange transactions by banks, enterprises and other market participants, for example, "Current accounts - foreign currency cash account" and "current accounts - foreign exchange account under current accounts of overseas institutions" are included in "current accounts - foreign exchange settlement account".

On the same day, the SAFE issued Notice by the State Administration of Foreign Exchange of Further Facilitating Cross-border Trade and Investment (國家外匯管理局關於進一步促進跨境貿易投資便利化的通知, 匯發[2019]28號), based on which, for the revenue obtained by an enterprise from trade in goods, the enterprise may, on its own, decide whether to open a to-be-inspected account for export revenue ("to-be-inspected account"). If an enterprise has not opened a to-be-inspected account, the examined revenue from trade in goods by the bank in accordance with the existing provisions may be directly deposited into the foreign exchange account under current accounts or used for foreign exchange settlement.

The Measures and the subsequent circulars will be subject to interpretation and application by the relevant PRC authorities. Local authorities may adopt different practices in applying the Measures and impose conditions for settlement of current account items.

Capital Account Items

Under PRC foreign exchange control regulations, capital account items include cross-border transfers of capital, direct investments, securities investments, derivative products and loans. Capital account payments are generally subject to approval of the relevant PRC authorities.

Capital account items are generally required to be made in foreign currencies. For instance, foreign investors (including any Hong Kong investors) are generally required to make any capital contribution to foreign invested enterprises in a foreign currency in accordance with the terms set out in the relevant joint venture contracts and/or articles of association as approved by the relevant authorities. Foreign invested enterprises or any other relevant PRC parties are also generally required to make capital account item payments including proceeds from liquidation, transfer of shares, reduction of capital and principal repayment under foreign debt to foreign investors in a foreign currency. That said, the relevant PRC authorities may approve a foreign entity to make a capital contribution or shareholder's loan to a foreign invested enterprise with Renminbi lawfully obtained by it outside the PRC and for the foreign invested enterprise to service interest and principal repayment to its foreign investor outside the PRC in Renminbi on a trial basis. The foreign invested enterprise may also be required to complete registration and verification process with the relevant PRC authorities before such Renminbi remittances.

On 3 June 2011, the PBOC promulgated the *Circular on Clarifying Issues concerning Cross-border Renminbi Settlement* (中國人民銀行關於明確跨境人民幣業務相關問題的通知) (the "PBOC Circular"). The PBOC Circular provides instructions to local PBOC authorities on procedures for the approval of settlement activities for non-financial Renminbi foreign direct investment into the PRC. The PBOC Circular applies to all non-financial Renminbi foreign direct investment into the PRC, and includes investment by way of establishing a new enterprise, acquiring an onshore enterprise, transferring the shares, increasing the registered capital of an existing enterprise, or providing loan facilities in Renminbi. The domestic settlement banks of foreign investors or foreign invested enterprises in the PRC are required to submit written applications to the relevant local PBOC authorities which include, *inter alia*, requisite approval letters issued by the relevant MOFCOM authorities. The PBOC Circular only applies to cases where the receiving onshore enterprise is not a financial institution. On 13 October 2011, the PBOC issued the PBOC RMB FDI Measures, to commence the PBOC's detailed RMB FDI administration system, which covers almost all aspects of RMB FDI, including capital injection, payment of purchase price in the acquisition of PRC domestic enterprises, repatriation of dividends and distribution, as well as RMB denominated cross-border loans. Under the PBOC RMB FDI Measures, special approval for RMB FDI and shareholder loans from the PBOC which was previously required by the PBOC Circular is no longer necessary.

On 14 June 2012, the PBOC issued the Notice on Clarifying the implementation of Settlement of Cross-Border Renminbi Direct Investment (中國人民銀行關於明確外商直接投資人民幣結算業務操作細則的通知), which provides more detailed rules for cross-border Renminbi direct investments and settlements.

On 3 December 2013, MOFCOM promulgated the Announcement on Issues Related to Cross-border RMB Direct Investment (關於跨境人民幣直接投資有關問題的公告) (the "MOFCOM RMB FDI Circular"), which has become effective on 1 January 2014, to further facilitate FDI by simplifying and streamlining the applicable regulatory framework. Pursuant to the MOFCOM RMB FDI Circular, the competent counterpart of MOFCOM will grant written approval for each FDI and specify "Renminbi Foreign Direct Investment" and the amount of capital contribution in the approval. Unlike previous MOFCOM regulations on FDI, the MOFCOM RMB FDI Circular removes the approval requirement for changes in the relevant joint venture contract or the articles of association of the joint venture company where foreign investors change the currency of its existing capital contribution from a foreign currency to Renminbi. In addition, the MOFCOM RMB FDI Circular also clearly prohibits the FDI funds from being used for any direct or indirect investment in securities and financial derivatives (except for strategic investment in the PRC listed companies) or for entrustment loans in the PRC.

On 13 February 2015, the SAFE promulgated the Circular of the State Administration of Foreign Exchange on Further Simplifying and Improving the Direct Investment-related Foreign Exchange Administration Policies (國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知) (the "2015 SAFE Circular"), which became effective on 1 June 2015. The 2015 SAFE Circular aims to deepen the reform of foreign exchange administration of capital accounts, promote and facilitate the capital operation of enterprises in making cross-border investments, regulate the direct investment-related foreign exchange administration business, improve the administration efficiency. The 2015 SAFE Circular set forth the following reformation: (i) cancel the Administrative Examination and Approval Procedures relating to the Foreign Exchange Registration Approval under Domestic Direct Investment and the Foreign Exchange Registration Approval under Overseas Direct Investment; (ii) cancel the requirements to provide the confirmation, and apply for the registration, of foreign investors' non-monetary contribution and provide the confirmation, and apply for the registration, of foreign investors' contribution to purchasing the equity held by the party incorporated in the PRC under domestic direct investment; (iii) the requirements to provide the confirmation, and apply for the registration, of foreign investors' monetary contribution has been replaced by the requirement to apply for a book-entry registration of domestic direct investment monetary contribution.

On 9 June 2016, the SAFE issued the Notice on Reforming and Regulating the Policies for the Administration of Settlement of Foreign Exchange under Capital Accounts (國家外匯管理局關於改革和規範資本項目結匯管理政策的通知), which provided, among others, that the settlement of foreign exchange funds under capital accounts (including the foreign capital, debt financing and overseas listing repatriation of funds, etc.) that are subject to willingness settlement as already specified by relevant policies may be handled at banks based on the domestic institutions' actual requirements for business operation, and where there are restrictive provisions in any current regulations on the settlement of foreign exchange funds under capital accounts of domestic institutions, these provisions shall prevail.

On 26 January 2017, the SAFE issued the Notice on Further Promoting the Reform of Foreign Exchange Administration and Improving the Examination of Authenticity and Compliance (國家外匯管理局關於進一步推進外匯管理改革完善真實合規性審核的通知(匯發 [2017] 3號)) to further advance the reform of foreign exchange administration, such as:

- settlement of domestic foreign exchange loans is allowed for export trade in goods. A domestic institution shall repay loans with the foreign exchange funds received from export trade in goods, rather than, in principle, purchased foreign exchange;

- a debtor may directly or indirectly repatriate the funds under guarantee and use them domestically by, among others, granting loans and making equity investment domestically. Where a bank performs its guarantee obligation under overseas loans with domestic guarantee, relevant foreign exchange settlement and sale shall be managed as the bank's own foreign exchange settlement and sale;

- the deposits absorbed by a domestic bank through its principal international foreign exchange account and allowed to be used domestically are no more than 100 per cent. of the average daily deposit balance in the previous six months as opposed to the former 50 per cent.; and the funds used domestically are not included in the bank's outstanding short-term external debt quota;

- allowing foreign exchange settlement in the domestic foreign exchange accounts of overseas institutions within pilot free trade zones: Where funds are repatriated and used domestically after settlement, a domestic bank shall, under the relevant provisions on cross-border transactions, handle such funds by examining the valid commercial documents and vouchers of domestic institutions and domestic individuals; and

- where a domestic institution grants overseas loans, the total of the balance of overseas loans granted in domestic currency and the balance of overseas loans granted in foreign currency shall not exceed 30 per cent. of owner's equity in the audited financial statements of the previous year.

Since September 2015, qualified multinational enterprise groups can extend Renminbi-denominated loans to, or borrow Renminbi-denominated loans from, eligible offshore member entities within the same group by leveraging the cash pooling arrangements. The Renminbi funds will be placed in a special deposit account and may not be used to invest in stocks, financial derivatives, or non-self-use real estate assets, or purchase wealth management products or extend loans to enterprises outside the group.

The securities markets, specifically the Renminbi Qualified Foreign Institutional Investor ("**RQFII**") regime and the China Interbank Bond Market ("**CIBM**"), have been further liberalised for foreign investors. PBOC has relaxed the quota control for RQFII, initiated a bond market mutual access scheme between mainland and Hong Kong to allow eligible investors to invest in CIBM and has also expanded the list of foreign investors eligible to directly invest in CIBM, removed quota restriction, and granted more flexibility for the settlement agents to provide the relevant institutions with more trading facilities (for example, in relation to derivatives for hedging foreign exchange risk).

Interbank foreign exchange market is also opening-up. In 2018, CFETS further relaxed qualifications, application materials and the procedures for foreign participating banks (which needs to have a relatively large scale of Renminbi purchase and sale business and international influence) to access the inter-bank foreign exchange market.

On 23 October 2019, the SAFE promulgated Notice by the State Administration of Foreign Exchange of Simplifying Foreign Exchange Accounts (國家外匯管理局關於精簡外匯帳戶的通知, 匯發[2019]29號) which became effective on 1 February 2020, according to which, several measures were taken to intensify, for example, "Capital accounts - special account for domestic reinvestment" is included in "capital accounts - foreign exchange capital account".

On the same day, the SAFE issued Notice by the State Administration of Foreign Exchange of Further Facilitating Cross-border Trade and Investment (國家外匯管理局關於進一步促進跨境貿易投資便利化的通知, 匯發[2019]28號) in order to further promote the reform of "simplification of administrative procedures and decentralization of powers, combination of decentralization and appropriate control, and optimization of services". It cancelled restrictions on the use of funds in domestic asset realization accounts for foreign exchange settlement and restrictions on the number of opened foreign exchange accounts under capital accounts.

As the MOFCOM RMB FDI Circular, the PBOC RMB FDI Measures and other normative documents mentioned above are relatively new rules, they will be subject to interpretation and application by the relevant PRC authorities.

Further, if any new PRC regulations are promulgated in the future which have the effect of permitting or restricting (as the case may be) the remittance of Renminbi for payment of transactions categorised as capital account items, then such remittances will need to be made subject to the specific requirements or restrictions set out in such rules.

CLEARANCE AND SETTLEMENT

The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of Euroclear, Clearstream or the CMU (together, the "Clearing Systems") currently in effect. The information in this section concerning the Clearing Systems has been obtained from sources that the Issuer believes to be reliable, but neither the Issuer nor any Dealer nor the Arrangers takes any responsibility for the accuracy thereof. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. Neither the Issuer nor any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Notes held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to, or payments made on account of, such beneficial ownership interests.

The relevant Pricing Supplement will specify the Clearing System(s) applicable for each Series.

The Clearing Systems

Euroclear and Clearstream

Euroclear and Clearstream each holds securities for participating organisations and facilitates the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream provide to their respective participants, among other things, services for safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream participants are financial institutions throughout the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to Euroclear or Clearstream is also available to others, such as banks, brokers, dealers and trust companies which clear through or maintain a custodial relationship with a Euroclear or Clearstream participant, either directly or indirectly.

Distributions of principal with respect to book-entry interests in the Notes held through Euroclear or Clearstream will be credited, to the extent received by the Paying Agent, to the cash accounts of Euroclear or Clearstream participants in accordance with the relevant system's rules and procedures.

CMU

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

The CMU is only available to CMU Instruments issued by a CMU Member or by a person for whom a CMU Member acts as agent for the purposes of lodging instruments issued by such persons. Membership of the CMU is open to all members of the Hong Kong Capital Markets Association and "authorised institutions" under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

Compared to clearing services provided by Euroclear and Clearstream, the standard custody and clearing service provided by the CMU is limited. In particular (and unlike the European Clearing Systems), the HKMA does not as part of this service provide any facilities for the dissemination to the relevant CMU Members of payments (of interest or principal) under, or notices pursuant to the notice provisions of, the CMU Instruments. Instead, the HKMA advises the lodging CMU Member (or a designated paying agent) of the identities of the CMU Members to whose accounts payments in respect of the relevant CMU Instruments are credited, whereupon the lodging CMU Member (or the designated paying agent) will make the necessary payments of interest or principal or send notices directly to the relevant CMU Members. Similarly, the HKMA will not obtain certificates of non-US beneficial ownership from CMU Members or provide any such certificates on behalf of CMU Members. The CMU Lodging and Paying Agent will collect such certificates from the relevant CMU Members identified from an instrument position report obtained by request from the HKMA for this purpose.

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

Book-Entry Ownership

Bearer Notes

The Issuer has made applications to Euroclear and Clearstream for acceptance in their respective book-entry systems in respect of any Series of Bearer Notes. The Issuer may also apply to have Bearer Notes accepted for clearance through the CMU. In respect of Bearer Notes, a temporary Global Note and/or a permanent Global Note will be deposited with a common depositary for Euroclear and Clearstream or a sub-custodian for the CMU. Transfers of interests in a temporary Global Note or a permanent Global Note will be made in accordance with the normal market debt securities operating procedures of the CMU, Euroclear and Clearstream.

Registered Notes

The Issuer may make applications to Euroclear and Clearstream for acceptance in their respective book-entry systems in respect of the Notes to be represented by a Global Certificate. The Issuer may also apply to have Notes to be represented by a Global Certificate accepted for clearance through the CMU. Each Global Certificate will have an International Securities Identification Number ("ISIN") and a Common Code. Investors in Notes of such Series may hold their interests in a Global Certificate through Euroclear, Clearstream or the CMU (if applicable).

Each Global Certificate will be subject to restrictions on transfer contained in a legend appearing on the front of such Global Certificate, as set out under "Subscription and Sale".

All Registered Notes will initially be in the form of a Global Certificate. Individual Certificates will be available, in the case of Notes initially represented by a Global Certificate, in amounts specified in the applicable Pricing Supplement.

SUBSCRIPTION AND SALE

Dealer Agreement

Subject to the terms and on the conditions contained in the amended and restated dealer agreement dated 8 November 2019, as amended and/or supplemented and/or restated from time to time (the "Dealer Agreement") between Bank of Communications Co., Ltd. Hong Kong Branch, the Arranger and Dealer, the Notes will be offered on a continuous basis by the Issuer to the Permanent Dealers. However, the Issuer has reserved the right to sell Notes directly on its own behalf to Dealers that are not Permanent Dealers as at the date of the Dealer Agreement. The Notes may be resold at prevailing market prices, or at prices related thereto, at the time of such resale, as determined by the relevant Dealer. The Notes may also be sold by the Issuer through the Dealers, acting as agents of the Issuer. The Dealer Agreement also provides for Notes to be issued in syndicated Tranches that are severally underwritten by two or more Dealers.

The Issuer will pay each relevant Dealer a commission as agreed between them in respect of Notes subscribed by it. The Issuer has agreed to reimburse each Arranger for certain of its expenses incurred in connection with the establishment of the Programme and the Dealers for certain of their activities in connection with the Programme.

The Issuer has agreed to indemnify the Dealers against certain liabilities in connection with the offer and sale of the Notes. The Dealer Agreement entitles the Dealers to terminate any agreement that they make to subscribe Notes in certain circumstances prior to payment for such Notes being made to the Issuer.

The Arranger and Dealer or any of its affiliates are financial institutions engaged in various activities which may include certain trading, commercial and investment banking, financial advice, investment management, principal investment, hedging, financing and brokerage activities advisory services for the relevant Issuer, the Bank and/or their respective affiliates from time to time for which they have received customary fees and expenses and may, from time to time, engage in transactions with and perform services for the relevant Issuer, the Bank and/or their respective subsidiaries and affiliates in the ordinary course of the relevant Issuer's, the Bank's or their business. In the ordinary course of their various business activities, the Arranger and Dealer and its affiliates may make or hold (on their own account, on behalf of clients or in their capacity of investment advisers) a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments and enter into other transactions, including credit derivatives (such as asset swaps, repackaging and credit default swaps) in relation thereto. Such transactions, investments and securities activities may involve securities and instruments of the relevant Issuer, the Bank and/or their respective subsidiaries and affiliates, including Notes issued under the Programme, may be entered into at the same time or proximate to offers and sales of Notes or at other times in the secondary market and be carried out with counterparties that are also purchasers, holders or sellers of Notes. Notes issued under the Programme may be purchased by or be allocated to any Dealer or its affiliate for asset management and/or proprietary purposes but not with a view to distribution.

In connection with the offer and sale of the Notes, the Issuer, the Arranger and Dealer and/or its affiliates may place orders, receive allocations and purchase Notes for their own account (without a view to distributing such Notes) and such orders and/or allocations of the Notes may be material. Such entities may hold or sell such Notes or purchase further Notes for their own account in the secondary market or deal in any other securities of the Issuer, and therefore, they may offer or sell the Notes or other securities otherwise than in connection with the offering. Accordingly, references herein to the Notes being 'offered' should be read as including any offering of the Notes to the Issuer, the Arranger and Dealer and/or its affiliates for their own account. Such entities are not expected to disclose such transactions or the extent of any such investment, otherwise than in accordance with any legal or regulatory obligation to do so. Furthermore, it is possible that only a limited number of investors may subscribe for a significant proportion of the Notes. If this is the case, liquidity of trading in the Notes may be constrained (see "Risk Factors — Risks Relating to the Market Generally — 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"). The Issuer and the Arranger and Dealer are under no obligation to disclose the extent of the distribution of the Notes amongst individual investors.

Selling Restrictions

General

The distribution of this Offering Circular or any offering material and the offering, sale or delivery of the Notes is restricted by law in certain jurisdictions. Therefore, persons who may come into possession of this Offering Circular or any offering material are advised to consult with their own legal advisers as to what restrictions may be applicable to them and to observe such restrictions. This Offering Circular may not be used for the purpose of an offer or invitation in any circumstances in which such offer or invitation is not authorised. If a jurisdiction requires that the offering of Notes be made by a licensed broker or dealer and any Dealer or any affiliate of that Dealer is a licensed broker in that jurisdiction, the offering shall be deemed to be made by that Dealer or its affiliate on behalf of the relevant Issuer in such jurisdiction.

United States

This paragraph shall apply in respect of any Notes the Pricing Supplement for which specifies that "Regulation S Category 1" applies. The Notes have not been and will not be registered under the Securities Act and the Notes may not be offered or sold within the United States except pursuant to an exemption from, or a transaction not subject to, the registration requirements of the Securities Act. Each Dealer has represented that it has not offered or sold the Notes, and agreed that it will not offer or sell, any Notes constituting part of its allotment in the United States except in accordance with Rule 903 of Regulation S under the Securities Act. Accordingly, neither it, its affiliates nor any persons acting on its or their behalf have engaged or will engage in any directed selling efforts with respect to the Notes. Terms used in this paragraph have the meaning given to them by Regulation S.

This paragraph shall apply in respect of any Notes the Pricing Supplement for which specifies that "Regulation S Category 2" applies. The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in accordance with Regulation S under the Securities Act or pursuant to an exemption from the registration requirements of the Securities Act. Each Dealer has represented and agreed that it has offered and sold, and shall offer and sell, any Series (1) as part of their distribution at any time and (2) otherwise until 40 days after the completion of the distribution of an identifiable tranche of which such Notes are a part, only in accordance with Rule 903 of Regulation S under the Securities Act. Accordingly, neither it, its affiliates nor any persons acting on its or their behalf have engaged or will engage in any directed selling efforts with respect to the Notes, and it and they have complied and shall comply with the offering restrictions requirement of Regulation S. Each Dealer agrees to notify the Fiscal Agent or, in the case of a Syndicated Issue, the Lead Manager when it has completed the distribution of its portion of the Notes of any identifiable tranche so that the Fiscal Agent or, in the case of a Syndicated Issue, the Lead Manager may determine the completion of the distribution of all Notes of that tranche and notify the other relevant Dealers of the end of the distribution compliance period. Each Dealer agrees that, at or prior to confirmation of sale of Notes, it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases Notes from it during the distribution compliance period a confirmation or notice to substantially the following effect:

The Securities covered hereby have not been registered under the U.S. Securities Act of 1933 (the "Securities Act") and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of an identifiable tranche of Notes of which such Notes are a part, except in either case in accordance with Regulation Sunder the Securities Act. Terms used above have the meaning given to them by Regulation S under the Securities Act."

Unless the Pricing Supplement or the Subscription Agreement relating to one or more Tranches specifies that the applicable TEFRA exemption is either "C Rules" or "not applicable", each Dealer has represented and agreed in relation to each Tranche of Notes in bearer form:

(i) except to the extent permitted under U.S. Treas. Reg. §1.163-5(c)(2)(i)(D) (or any successor rules in substantially the same form that are applicable for purposes of Section 4701 of the U.S. Internal Revenue Code of 1986, as amended (the "Code")) (the "D Rules"):

   (a) it has not offered or sold, and during a 40 day restricted period shall not offer or sell, Notes in bearer form to a person who is within the United States or its possessions or to a United States person; and

   (b) it has not delivered and shall not deliver within the United States or its possessions definitive Notes in bearer form that are sold during the restricted period;

(ii) it has and throughout the restricted period shall have in effect procedures reasonably designed to ensure that its employees or agents who are directly engaged in selling Notes in bearer form are aware that such Notes may not be offered or sold during the restricted period to a person who is within the United States or its possessions or to a United States person, except as permitted by the D Rules;

(iii) if it is a United States person, it is acquiring the Notes in bearer form for purposes of resale in connection with their original issuance and if it retains Notes in bearer form for its own account, it shall only do so in accordance with the requirements of U.S. Treas. Reg. §1.163-5(c)(2)(i)(D)(6); and

(iv) with respect to each affiliate that acquires from it Notes in bearer form for the purpose of offering or selling such Notes during the restricted period, it either (a) repeats and confirms the representations contained in sub-paragraphs (i), (ii) and (iii) on behalf of such affiliate or (b) agrees that it shall obtain from such affiliate for the benefit of the Issuer the representations contained in sub-paragraphs (i), (ii) and (iii).

Terms used in this paragraph have the meanings given to them by the Code and regulations thereunder, including the D Rules.

To the extent that the Pricing Supplement or the Subscription Agreement relating to one or more Tranches of Bearer Notes specifies that the applicable TEFRA exemption is "C Rules", under U.S. Treas. Reg. §1.163-5(c)(2)(i)(C) (or any successor rules in substantially the same form that are applicable for purposes of Section 4701 of the Code) (the "C Rules"), Notes in bearer form must be issued and delivered outside the United States and its possessions in connection with their original issuance. In relation to each such Tranche, each Dealer has represented and agreed that it has not offered, sold or delivered, and shall not offer, sell or deliver, directly or indirectly, Notes in bearer form within the United States or its possessions in connection with their original issuance. Further, in connection with their original issuance of Notes in bearer form, it has not communicated, and shall not communicate, directly or indirectly, with a prospective purchaser if either such purchaser or it is within the United States or its possessions or otherwise involve its U.S. office in the offer or sale of Notes in bearer form. Terms used in this paragraph have the meanings given to them by the Code and regulations thereunder, including the C Rules and IRS Notice 2012-20.

Each issuance of index-, commodity- or currency-linked Notes shall be subject to such additional U.S. selling restrictions as the relevant Dealer(s) shall agree with the Issuer as a term of the issuance and purchase or, as the case may be, subscription of such Notes. Each relevant Dealer has agreed that it shall offer, sell and deliver such Notes only in compliance with such additional U.S. selling restrictions.

Prohibition of Sales to European Economic Area and UK Retail Investors

Unless the Pricing Supplement in respect of any Notes specifies "Prohibition of Sales to EEA and UK Retail Investors" as "Not Applicable", each Dealer has represented 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 European Economic Area or in the United Kingdom. For the purposes of this provision:

(a) the expression "retail investor" means a person who is one (or more) of the following:

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

  (ii) a customer within the meaning of Directive (EU) 2016/97 (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 "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 EEA and UK Retail Investors" as "Not Applicable", in relation to each Member State of the European Economic Area and the United Kingdom (each a "Relevant State"), each Dealer has represented 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 Relevant State except that it may, make an offer of such Notes to the public in that Relevant State:

(i) 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 Relevant State (a "Non-exempt Offer"), following the date of publication of a prospectus in relation to such Notes which has been approved by the competent authority in that Relevant State or, where appropriate, approved in another Relevant State and notified to the competent authority in that Relevant State, provided that any such prospectus has subsequently been completed by the 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 final terms, as applicable and the Issuer has consented in writing to its use for the purpose of that Non-exempt Offer;

(ii) at any time to any legal entity which is a qualified investor as defined in the Prospectus Regulation;

(iii) 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

(iv) 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 (ii) to (iv) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Regulation or supplement a prospectus pursuant to Article 23 of the Prospectus Regulation.

For the purposes of this provision, the expression an "offer of Notes to the public" in relation to any Notes in any Relevant State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes, the expression "Prospectus Regulation" means Regulation (EU) 2017/1129.

United Kingdom

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that:

(i) in relation to any Notes which have a maturity of less than one year, (a) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (b) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of section 19 of the Financial Services and Markets Act 2000 (the "FSMA") by the Issuer;

(ii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and

(iii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Hong Kong

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(i) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes other than (a) to "Professional Investors" as defined in the Securities and Futures Ordinance (Cap. 571) (the "SFO") of Hong Kong and any rules made under the SFO; or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) 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

(ii) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, in each case whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "Professional Investors" as defined in the SFO and any rules made under the SFO.

Singapore

Each Dealer has acknowledged, and each further Dealer appointed under the Programme will be required to acknowledge, that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time (the "SFA")) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.[3]

Singapore SFA Product Classification: In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the "SFA") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "CMP Regulations 2018"), unless otherwise specified before an offer of Notes, the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 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).

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[3] Notes:

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(i) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(ii) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA)

If 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.

PRC

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered or sold and will not offer or sell any of the Notes in the PRC (for such purposes, not including Hong Kong, Macau or Taiwan) or to residents of the PRC unless such offer or sale is made in compliance with all applicable laws and regulations of the PRC.

Taiwan

Unless the Notes have been registered or filed with, or approved by, the Financial Supervisory Commission of Taiwan and/or other regulatory authority of Taiwan, the Notes may not be sold, issued or offered within Taiwan through a public offering or in circumstances which constitutes an offer within the meaning of the Securities and Exchange Act of Taiwan or relevant laws and regulations that requires a registration, filing or approval of the Financial Supervisory Commission of Taiwan and/or other regulatory authority of Taiwan.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended) (the "Financial Instruments and Exchange Act"). Accordingly, each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Notes in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and any other applicable laws, regulations and ministerial guidelines of Japan.

GENERAL INFORMATION

1. **Clearing Systems**: The Notes have been accepted for clearance through the Euroclear and Clearstream systems (which are the entities in charge of keeping the records). The Issuer may also apply to have Notes accepted for clearance through the CMU. The relevant CMU instrument number will be set out in the relevant Pricing Supplement. The relevant ISIN, the Common Code and (where applicable) the identification number for any other relevant clearing system for each series of Notes will be specified in the applicable Pricing Supplement. If the Notes are to clear through an additional or alternative clearing system the appropriate information will be set out in the relevant Pricing Supplement.

   The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream is 42 Avenue JF Kennedy, L-1855 Luxembourg. The address of any alternative clearing system will be specified in the relevant Pricing Supplement.

2. **Legal Entity Identifier of the Bank**: 549300AX1UM10U30HK09

3. **Listing**: Application has been made to the HKSE for listing of the Programme by way of debt issues to Professional Investors only during the 12-month period from the date of this Offering Circular on the HKSE. Notes to be listed on the HKSE are required to be traded on the HKSE in a board lot size of at least HK$500,000 (or its equivalent in other currencies).

4. **Litigation**: None of the Issuer nor any of its subsidiaries is involved in any material litigation or arbitration proceedings relating to claims or amounts which are material in the context of the issue of the Notes, nor is the Issuer or any of its subsidiaries aware that any such proceedings are pending or threatened.

5. **Authorisations**: Bank of Communications Co., Ltd. Hong Kong Branch has obtained all necessary consents, approvals and authorisations as may be required in connection with the establishment of the Programme and the issue of this Offering Circular. The establishment of the Programme and the issue of Notes thereunder have been duly authorised by a resolution of the Board of the Bank dated 27 October 2017. The Issuer has obtained and has agreed to obtain from time to time all necessary internal consents, approvals and authorisations for the issue of Notes under the Programme.

6. **No Material Adverse Change**: Except as disclosed in this Offering Circular, there has been no significant change in the financial or trading position of the Issuer or of the Group since 30 June 2020 and no material adverse change in the financial position or prospects of Bank of Communications Co., Ltd. Hong Kong Branch or of the Group since 30 June 2020.

7. **Available Documents**: For so long as Notes may be issued pursuant to this Offering Circular, the following documents will be available, during usual business hours on any weekday (Saturdays and public holidays excepted), for inspection at the registered office of the Issuer and at the specified office of the Fiscal Agent:

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

   (b) the audited consolidated financial statements of the Bank as at and for the year ended 31 December 2018 and a copy of the auditor's report of PricewaterhouseCoopers;

   (c) the audited consolidated financial statements of the Bank as at and for the year ended 31 December 2019 and a copy of the auditor's report of PricewaterhouseCoopers;

   (d) copies of the most recent annual and interim reports (including the financial statements) published by the Bank;

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

(f) the Dealer Agreement;

(g) a copy of this Offering Circular together with any Supplement to this Offering Circular or further Offering Circular;

(h) a copy of the subscription agreement for Notes issued on a syndicated basis that are listed on any stock exchange, where the rules of such stock exchange so require;

(i) each Pricing Supplement (save that Pricing Supplement relating to a Note which is neither admitted to trading on a regulated market within the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive 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).

8. **Auditor**: PricewaterhouseCoopers, the Bank's independent auditor for the years ended 31 December 2018 and 2019 has audited, and rendered unqualified audit report on, the consolidated financial statements of the Bank for the years ended 31 December 2018 and 2019. PricewaterhouseCoopers has reviewed, and rendered unqualified review report on, the consolidated financial statements of the Bank for the six months ended 30 June 2020.

   PricewaterhouseCoopers has given and not withdrawn their written consent to the reproduction of their audit report dated 29 March 2019 on the audited consolidated financial statements of the Bank as at and for the year ended 31 December 2018 and the reproduction of their audit report dated 21 April 2020 on the audited consolidated financial statements of the Bank as at and for the year ended 31 December 2019 and with references to PricewaterhouseCoopers in the form and context in which they appear. Their consent should not be construed as in any way updating or refreshing the aforementioned audit reports.

   PricewaterhouseCoopers has given and not withdrawn their written consent to the reproduction of their review report dated 28 August 2020 on the unaudited condensed consolidated financial statements of the Bank as at and for the six months ended 30 June 2020 and with references to PricewaterhouseCoopers in the form and context in which they appear. Their consent should not be construed as in any way updating or refreshing the aforementioned review reports.

9. Each Bearer Note having a maturity of more than one year, Receipt, Coupon and Talon will bear the following legend: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code".

10. The issue price and the amount of the relevant Notes will be determined, before filing of the relevant Pricing Supplement of each tranche, based on the prevailing market conditions. The Issuer does not intend to provide any post-issuance information in relation to any issues of Notes.

INDEX TO FINANCIAL STATEMENTS

Notes:

(1) The independent auditor's reports on the Group's consolidated financial information for the years ended 31 December 2017 and 2018 set out herein is reproduced from the Group's annual reports for the year ended 31 December 2018. Page references referred to in the abovenamed reports refer to pages set out in such annual reports.

(2) The independent auditor's reports on the Group's consolidated financial information for the years ended 31 December 2018 and 2019 set out herein is reproduced from the Group's annual reports for the year ended 31 December 2019. Page references referred to in the abovenamed reports refer to pages set out in such annual reports

(3) The auditor's report on review of interim financial information on the Group's unaudited interim condensed consolidated financial statements for the six months ended 30 June 2020 set out herein is reproduced from the Group's interim report for the six months ended 30 June 2020. Page references referred to in the abovenamed report refer to pages set out in such interim report.

羅兵咸永道

To the Shareholders of Bank of Communications Co., Ltd.
(Incorporated in the People's Republic of China with limited liability)

OPINION

What we have audited

The consolidated financial statements of Bank of Communications Co., Ltd. (the "Bank") and its subsidiaries (the "Group") set out on pages 187 to 344, which comprise:

- the consolidated statement of financial position as at 31 December 2018;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KEY AUDIT MATTERS *(Continued)*

Key audit matters identified in our audit are summarised as follows:

1. Expected credit impairment allowance of loans and advance to customers, financial investments – debt instruments measured at amortised cost and financial guarantees and loan commitments

2. Consolidation assessment of structured entities

Key Audit Matter

Expected credit impairment allowance of loans and advance to customers, financial investments – debt instruments measured at amortised cost and financial guarantees and loan commitments

Refer to Notes 2.4, 2.31(a), 3.1.1(a), 3.1.1(b), 3.1.1(c), 3.1.1(e), 3.1.2, 3.1.3.1, 19 and 20. to the Group's consolidated financial statements.

As at 31 December 2018, the Group's gross loans and advances to customers amounted to RMB4,868,423 million, and a loss allowance of RMB126,051 million was recognized in the Group's consolidated statement of financial position; the amount of debt instruments measured at amortised cost was RMB2,003,874 million and a loss allowance of RMB3,369 million was recognized; the exposure of loan commitments and financial guarantees was RMB1,456,218 million, for which a provision of RMB5,081 million was recognized.

The balances of loss allowances for loans and advances to customers, and debt instruments measured at amortised cost and provision for financial guarantees and loan commitments represent the management's best estimates at the balance sheet date of expected credit losses under International Financial Reporting Standard 9: Financial Instruments expected credit losses models ("ECL Models").

The Group assesses whether the credit risk of loans and advances to customers and debt instruments measured at amortised cost and financial guarantees and loan commitments have increased significantly since their initial recognition, and apply a three-stage impairment model to calculate their ECL. For corporate loans and advances classified into stages 1 and 2, and those in stage 3 without using discounted cash flow model ("DCF") to calculate ECL, all personal loans and advances, and financial guarantees and loan commitments, the management assesses loss allowance using the risk parameter modelling approach that incorporates key parameters, including probability of default, loss given default, exposure at default and discount rates. For corporate loans in stage 3 using DCF, the management assesses loss allowance by estimating the cash flows from the loans.

How our audit addressed the Key Audit Matter

We evaluated and tested the design and operational effectiveness of the internal controls relating to the measurement of expected credit losses for loans and advances to customers, debt instruments measured at amortised cost and financial guarantees and loan commitments, primarily including:

(1) Management over ECL models, including the selection, approval and application of modelling methodology; and the internal controls relating to the on going monitoring and optimization of the models;

(2) Internal controls relating to significant management judgments and assumptions, including the review and approval of portfolio segmentation, model selections, parameters estimation, significant increase in credit risk, or of defaults or credit-impaired, forward-looking and management overlay adjustments;

(3) Internal controls over the accuracy and completeness of key inputs used by the models;

(4) Internal controls relating to estimated future cash flows and calculations of present values of such cash flows for corporate loans and advances in stage 3;

(5) Internal controls over the information systems for model-based measurement.

The substantive procedures we preformed, primarily including:

We reviewed the modelling methodologies for ECL measurement, and assessed the reasonableness of the portfolio segmentation, models selection, key parameters estimation, significant judgements and assumptions in relation to the models. We tested whether or not the measurement models reflect the modelling methodologies documented by the management on a sample basis.

KEY AUDIT MATTERS *(Continued)*

Key Audit Matter	**How our audit addressed the Key Audit Matter**
Expected credit impairment allowance of loans and advance to customers, financial investments – debt instruments measured at amortised cost and financial guarantees and loan commitments (Continued)	
The measurement models of expected credit losses involves significant management judgments and assumptions, primarily including the following: (1) Segmentation of business operations sharing similar credit risk characteristics, selection of appropriate models and determination of relevant key measurement parameters; (2) Criteria for determining whether or not there was a significant increase in credit risk, or a default or impairment loss was incurred; (3) Economic indicators for forward-looking measurement, and the application of economic scenarios and weightings; (4) Management overlay adjustments due to significant uncertain factors not covered in the models; (5) The estimated future cash flows for corporate loans and advances in stage 3. The Group established controls for the measurement of expected credit losses. For measuring expected credit losses, the Group adopted complex models, employed numerous parameters and data inputs, and applied significant management judgments and assumptions. In addition, the loans and advances to customers, financial guarantees and exposures of loan commitments and debt instruments measured at amortised costs, the loss allowance and provision accrued involve significant amounts. In view of these reasons, we identified this as a key audit matter.	We selected samples, in consideration of the financial information and non-financial information of the borrowers, relevant external evidence and other factors, to assess the appropriateness of the management's identification of significant increase in credit risk, defaults and credit-impaired loans. For forward-looking measurement, we reviewed the management's model analysis of their selection of economic indicators; economic scenarios and weightings employed, assessed the reasonableness of the prediction of economic indicators and performed sensitivity analysis of economic indicators, economic scenarios and weightings. In addition, we assessed the reasonableness of the selection of significant uncertain factors, its application and measurement in the management overlay adjustments, and examined the accuracy of the relevant mathematical calculations. We examined major data inputs to the ECL models on selected samples, including historical data and data at the measurement date, to assess their accuracy and completeness. For corporate loans and advances in stage 3, we examined, on a sample basis, forecasted future cash flows prepared by the Group based on financial information of borrowers and guarantors, latest collateral valuations and other available information together with discount rates in supporting the computation of loss allowance. Based on our procedures performed, in the context of the inherent uncertainties associated with measurement of expected credit losses for loans and financial guarantees and advances to customers, loan commitments and debt instruments measured at amortised cost, the models, key parameters, significant judgement and assumptions adopted by management and the measurement results were considered acceptable.

KEY AUDIT MATTERS *(Continued)*

Key Audit Matter

Consolidation assessment of structured entities

Refer to Notes 2.2, 2.31(d), 40 and 41 to the Group's consolidated financial statements.

The Group has managed or invested in a number of structured entities. As at 31 December 2018, total assets of the consolidated structured entities and the carrying amount of unconsolidated structured entities invested by the Group included in the consolidated statement of financial position amounted to RMB138,366 million and RMB388,415 million, respectively. In addition, as at 31 December 2018, unconsolidated structured entities sponsored and managed by the Group amounted to RMB2,256,578 million.

Management performed assessment on each of the three elements of control (power to direct relevant activities of structured entities, exposure to variable returns and the Group's ability to use its power to affect its variable returns from the structured entities) in determining whether structured entities managed or invested in by the Group should be consolidated or not. In performing the assessment, significant judgment was involved to determine the role of the Group in the arrangement as either a principal or an agent. If the Group acts as a principal, the structured entities should be consolidated.

We focused on this area because the amount of the Group's structured entities was significant and the consolidation assessment of these structured entities involved significant judgments.

How our audit addressed the Key Audit Matter

We understood, evaluated and validated the design and operating effectiveness of relevant controls over management's assessment of consolidation of structured entities.

In addition, we selected a sample of the structured entities that the Group invested in or managed, and performed the following procedures on management's assessment of consolidation of structured entities:

(1) Analysed the transaction structures, inspected related contract terms, and evaluated whether the Group had the power to direct the relevant activities of these structured entities;

(2) Inspected contract terms related to the Group's variable returns from these selected structured entities, including management fee, expected investment returns and returns from liquidity support, and agreed this information to the corresponding inputs used in management's assessment;

(3) Recalculated the magnitude and variability of the variable returns to the Group from these structured entities based on contract terms;

(4) We assessed the Group's role in these structured entities as a principal or an agent through analysis of the scope of its decision-making authority over the structured entities, the remuneration to which the Group was entitled for its management services provided to the structured entities, its exposure to variability of returns from other interests that it holds in them, and the rights held by other parties, and compared our assessment results with management's assessment outcomes.

Based on the work undertaken above, we found the overall consolidation assessment of structured entities performed by management acceptable.

OTHER INFORMATION

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The Audit Committee is responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional 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.

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, 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 Kwok Wai, Jimmy.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 29 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(All amounts expressed in millions of RMB unless otherwise stated)

	Notes	Year ended 31 December 2018	2017
Interest income		**348,864**	314,200
Interest expense		**(217,956)**	(189,327)
Net interest income	4	**130,908**	124,873
Fee and commission income	5	**44,673**	44,060
Fee and commission expense	6	**(3,436)**	(3,509)
Net fee and commission income		**41,237**	40,551
Net gains arising from trading activities	7	**17,099**	2,096
Net gains arising from financial investments		**290**	3,084
Net gains/(losses) on derecognition of financial assets measured at amortised cost		***(132)***	*N.A.*
Share of profits of associates and joint venture		**227**	132
Insurance business income		**7,481**	12,968
Other operating income	8	**15,813**	12,816
Assets impairment losses	9	**N.A.**	(31,469)
Credit impairment losses	9	**(43,454)**	N.A.
Other assets impairment losses	9	**(60)**	N.A.
Insurance business expense		**(6,722)**	(12,211)
Other operating expenses	10	**(76,752)**	(69,575)
Profit before tax		**86,067**	83,265
Income tax	13	**(11,902)**	(12,574)
Net profit for the year		**74,165**	70,691
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Loans and advances to customers – carried at FVOCI			
Net gains recorded in equity		***102***	*N.A.*
Net gains reclassified from equity to profit or loss		***–***	*N.A.*
Debt instruments at fair value through other comprehensive income			
Net gains recorded in equity		***2,086***	*N.A.*
Net gains reclassified from equity to profit or loss		***(171)***	*N.A.*
Available-for-sale financial assets			
Changes in fair value recorded in equity		***N.A.***	*(2,317)*
Changes in fair value reclassified from equity to profit or loss		***N.A.***	*(2,111)*
Net gains/(losses) arising from cash flow hedge			
Changes in fair value recorded in equity		***110***	*18*
Changes in fair value reclassified from equity to profit or loss		***(93)***	*103*
Others		**18**	(9)
Translation difference on foreign operations		**1,998**	(1,592)
		4,050	(5,908)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME *(Continued)*

(All amounts expressed in millions of RMB unless otherwise stated)

		Year ended 31 December	
	Notes	**2018**	2017
Items that will not be reclassified subsequently to profit or loss:			
Net gains on equity investments designated at fair value through other comprehensive income		**61**	N.A.
Actuarial gains/(losses) on pension benefits		**(25)**	31
Change in fair value attributable to change in the credit risk of financial liability designated at FVPL		**(14)**	N.A.
Other comprehensive income for the year	38	**4,072**	(5,877)
Comprehensive income for the year		**78,237**	64,814
Net profit attributable to:			
Shareholders of the Bank		**73,630**	70,223
Non-controlling interests		**535**	468
		74,165	70,691
Total comprehensive income attributable to:			
Shareholders of the Bank		**77,461**	64,585
Non-controlling interests		**776**	229
		78,237	64,814
Basic and diluted earnings per share for profit attributable to the shareholders of the Bank (in RMB yuan)	14	**0.96**	0.91

The accompanying notes form a part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(All amounts expressed in millions of RMB unless otherwise stated)

	Notes	As at 31 December 2018	As at 31 December 2017
ASSETS			
Cash and balances with central banks	15	**840,171**	938,571
Due from banks and other financial institutions	16	**848,067**	782,468
Derivative financial assets	18	**30,730**	34,007
Loans and advances to customers	19	**4,742,372**	4,473,255
Financial investments – financial assets at fair value through profit or loss	17	**376,386**	227,030
Financial investments – debt instruments at amortised cost	20	**2,000,505**	N.A.
Financial investments – debt instruments at fair value through other comprehensive income	20	**437,630**	N.A.
Financial investments – equity investments at fair value through other comprehensive income	20	**7,388**	N.A.
Financial investments – available-for-sale	20	**N.A.**	402,138
Financial investments – loans and receivables	20	**N.A.**	387,733
Financial investments – held-to-maturity	20	**N.A.**	1,511,375
Investments in associates and joint venture	22	**3,653**	3,357
Property and equipment	23	**153,286**	132,492
Deferred income tax assets	24	**21,975**	16,456
Other assets	25	**69,008**	129,372
Total assets		**9,531,171**	9,038,254
LIABILITIES			
Due to banks and other financial institutions	26	**2,162,293**	2,106,192
Financial liabilities at fair value through profit or loss	27	**23,109**	26,964
Derivative financial liabilities	18	**28,105**	33,344
Due to customers	28	**5,793,324**	5,545,366
Certificates of deposits issued	29	**366,753**	150,482
Current tax liabilities		**2,279**	7,943
Deferred income tax liabilities	24	**598**	520
Debt securities issued	30	**317,688**	287,662
Other liabilities	31	**131,714**	203,510
Total liabilities		**8,825,863**	8,361,983
EQUITY			
Share capital	32	**74,263**	74,263
Preference shares	33	**59,876**	59,876
Capital surplus	32	**113,663**	113,663
Other reserves		**321,442**	298,827
Retained earnings		**129,161**	124,514
Equity attributable to shareholders of the bank		**698,405**	671,143
Non-controlling interests		**6,903**	5,128
Total equity		**705,308**	676,271
Total equity and liabilities		**9,531,171**	9,038,254

The consolidated financial statements were approved and authorised for issuance by the Board of Directors on 29 March 2019 and signed on its behalf by:

Chairman and Executive Director: Peng Chun *Vice Chairman, Executive Director and President: Ren Deqi*

The accompanying notes form a part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(All amounts expressed in millions of RMB unless otherwise stated)

				Other reserves												
	Share capital Note 32	Preference shares Note 33	Capital surplus Note 32	Statutory reserve Note 34	Discretionary reserve Note 34	Statutory general reserve Note 34	Revaluation reserve for Financial assets at FVOCI/ Available-for-sale financial assets Note 34	Revaluation reserve for the changes in credit risk of the financial liabilities measured designated at FVPL Note 34	Cash flow hedge reserve	Translation reserve on foreign operations	Actuarial changes reserve	Others	Retained earnings Note 34,35	Attributable to the shareholders of the Bank	Non-controlling interests	Total
Balance at 31 December 2017	74,263	59,876	113,663	57,461	139,767	104,470	(2,365)	N.A.	7	(1,875)	35	1,327	124,514	671,143	5,128	676,271
Impact on adoption of IFRS 9 (see Note 2.1.2)	-	-	-	-	-	-	1,891	(6)	-	-	-	-	(28,257)	(26,372)	(54)	(26,426)
Balance at 1 January 2018 (restated)	74,263	59,876	113,663	57,461	139,767	104,470	(474)	(6)	7	(1,875)	35	1,327	96,257	644,771	5,074	649,845
Net profit for the year	-	-	-	-	-	-	-	-	-	-	-	-	73,630	73,630	535	74,165
Other comprehensive income	-	-	-	-	-	-	1,867	(14)	17	1,968	(25)	18	-	3,831	241	4,072
Total comprehensive income	-	-	-	-	-	-	1,867	(14)	17	1,968	(25)	18	73,630	77,461	776	78,237
Capital contribution by non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,125	1,125
Dividends paid to ordinary shares	-	-	-	-	-	-	-	-	-	-	-	-	(21,209)	(21,209)	(72)	(21,281)
Dividends paid to preference shares	-	-	-	-	-	-	-	-	-	-	-	-	(2,618)	(2,618)	-	(2,618)
Transfer to reserves	-	-	-	7,055	29	9,811	-	-	-	-	-	-	(16,895)	-	-	-
Transferred from other comprehensive income	-	-	-	-	-	-	4	-	-	-	-	-	(4)	-	-	-
Balance at 31 December 2018	74,263	59,876	113,663	64,516	139,796	114,281	1,397	(20)	24	93	10	1,345	129,161	698,405	6,903	705,308
Balance at 1 January 2017	74,263	59,876	113,392	50,650	139,764	87,732	1,832	N.A.	(114)	(291)	4	1,336	100,698	629,142	3,265	632,407
Net profit for the year	–	–	–	–	–	–	–	N.A.	–	–	–	–	70,223	70,223	468	70,691
Other comprehensive income	–	–	–	–	–	–	(4,197)	N.A.	121	(1,584)	31	(9)	–	(5,638)	(239)	(5,877)
Total comprehensive income	–	–	–	–	–	–	(4,197)	N.A.	121	(1,584)	31	(9)	70,223	64,585	229	64,814
Capital contribution by non-controlling shareholders	–	–	277	–	–	–	–	N.A.	–	–	–	–	–	277	1,667	1,944
Dividends paid to ordinary shares	–	–	–	–	–	–	–	N.A.	–	–	–	–	(20,162)	(20,162)	(33)	(20,195)
Dividends paid to preference shares	–	–	–	–	–	–	–	N.A.	–	–	–	–	(2,693)	(2,693)	–	(2,693)
Transfer to reserves	–	–	–	6,811	3	16,738	–	N.A.	–	–	–	–	(23,552)	–	–	–
Others	–	–	(6)	–	–	–	–	N.A.	–	–	–	–	–	(6)	–	(6)
Balance at 31 December 2017	74,263	59,876	113,663	57,461	139,767	104,470	(2,365)	N.A.	7	(1,875)	35	1,327	124,514	671,143	5,128	676,271

The accompanying notes form a part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

(All amounts expressed in millions of RMB unless otherwise stated)

	Notes	Year ended 31 December 2018	2017
Cash flows from operating activities:			
Net profit before tax:		**86,067**	83,265
Adjustments for:			
Provision for/(reversal of) ECL allowance of loans and advances to customers		**43,623**	30,161
Provision for/(reversal of) ECL allowance of due from banks and other financial institutions		**(43)**	–
Provision for/(reversal of) ECL allowance of financial investments		**(97)**	221
Provision for/(reversal of) ECL allowance of other receivables		**1,075**	991
Provision for/(reversal of) ECL allowance of others		**(1,104)**	11
Provision for/(reversal of) impairment allowance of property and equipment		**33**	80
Provision for/(reversal of) impairment allowance of foreclosed assets		**27**	6
Provision for/(reversal of) impairment allowance on repossessed assets		**–**	(1)
Provision for/(reversal of) insurance contracts reserve		**1,393**	8,916
Depreciation and amortisation		**10,250**	9,315
Provision for/(reversal of) outstanding litigation and unsettled obligation		**549**	110
Net profit on the disposal of fixed and foreclosed assets		**(15)**	(123)
Interest income from financial investments		**(85,449)**	(79,895)
Unwind of discount on allowances during the year		**(1,618)**	(1,812)
Fair value losses/(gains)		**(6,527)**	5,756
Share of profit of associates and joint venture		**(227)**	(132)
Net gains arising from financial investments		**(290)**	(3,084)
Interest expense on debt securities issued		**11,992**	10,068
Operating cash flows before movements in operating assets and liabilities		**59,639**	63,853
Net decrease/(increase) in mandatory reserve deposits		**106,039**	(29,838)
Net increase in due from banks and other financial institutions		**(52,257)**	(71,456)
Net increase in financial assets at fair value through profit or loss		**(88,330)**	(56,908)
Net increase in loans and advances to customers		**(326,960)**	(379,286)
Net decrease/(increase) in other assets		**4,266**	(34,951)
Net increase in due to banks and other financial institutions		**238,717**	151,684
Net decrease in financial liabilities at fair value through profit or loss		**(5,013)**	(17,823)
Net increase in due to customers		**393,174**	369,296
Net increase/(decrease) in other liabilities		**(191,806)**	28,803
Net increase/(decrease) in value-added tax and surcharge payable		**576**	(590)
Income tax paid		**(14,153)**	(12,057)
Net cash flows from operating activities		**123,892**	10,727

CONSOLIDATED STATEMENT OF CASH FLOWS *(Continued)*

(All amounts expressed in millions of RMB unless otherwise stated)

	Notes	Year ended 31 December 2018	2017
Cash flows from investing activities:			
Purchase of financial investments		**(694,169)**	(530,249)
Disposal or redemption of financial investments		**542,954**	355,053
Dividends received		**379**	420
Interest received from financial investments		**81,294**	79,977
Acquisition of intangible assets and other assets		**(694)**	(1,535)
Disposal of intangible assets and other assets		**124**	34
Purchase and construction of property and equipment		**(30,649)**	(27,736)
Disposal of property and equipment		**621**	1,077
Net cash flows from investing activities		**(100,140)**	(122,959)
Cash flows from financing activities:			
Cash received on debt securities issued		**41,846**	90,028
Cash payments for distribution of dividends, profits or interest expenses		**(36,043)**	(32,062)
Capital contribution by non-controlling interests		**1,125**	1,944
Repayment of principals of debt securities issued		**(20,332)**	(29,395)
Dividends paid to non-controlling interests		**(72)**	(33)
Net cash flows from financing activities		**(13,476)**	30,482
Effect of exchange rate changes on cash and cash equivalents		**4,297**	(5,727)
Net increase/(decrease) in cash and cash equivalents		**14,573**	(87,477)
Cash and cash equivalents at the beginning of the year		**228,919**	316,396
Cash and cash equivalents at the end of the year	39	**243,492**	228,919
Net cash flows from operating activities include:			
Interest received		**281,793**	243,096
Interest paid		**(193,279)**	(167,796)

The accompanying notes form a part of these consolidated financial statements.

(All amounts expressed in millions of RMB unless otherwise stated)

1 GENERAL

Bank of Communications Co., Ltd. (the "Bank") is a commercial and retail bank providing banking services mainly in the People's Republic of China ("PRC"). The Bank was reorganised as a joint stocks national commercial bank on 1 April 1987, in accordance with the approval notice (Guo Fa (1986) No. 81) issued by the State Council of the PRC and the approval notice (Yin Fa (1987) No. 40) issued by the People's Bank of China ("PBOC"). Headquartered in Shanghai, the Bank operates 238 branches in Mainland China and 22 branches (sub-branches), subsidiary banks and representative offices overseas. The Bank's A shares are listed on Shanghai Stock Exchange and H shares on Hong Kong Stock Exchange.

The principal activities of the Bank and its subsidiaries (collectively referred to as the "Group") include corporate and personal banking services, treasury business, asset management, trustees, insurance, finance lease, debt-to-equity swap and other financial services.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to the periods presented unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with all the applicable International Financial Reporting Standards ("IFRSs") and disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and the Hong Kong Companies Ordinance (Cap.622). The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments and investment property which are measured at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 2.31.

2.1.1 New and revised IFRSs effective by 1 January 2018 applied by the Group

The Group has adopted the following international financial report standards which are relevant to the Group:

IFRS 9	Financial instruments
IFRS 15	Revenue from contracts with customers
Amendments to IAS 40	Transfer of investment property
Amendments to IAS 28	Annual Improvements to IFRSs 2014 – 2016 cycle
IFRIC 22	Foreign Currency Transactions and Advance Consideration
Amendments to IFRS 2	Share-based payment transactions
Amendments to IFRS 4	Applying IFRS 9 financial instruments with IFRS 4 insurance contracts

IFRS 9

The Group has adopted *International Financial Report Standard 9 "Financial Instruments"* ("IFRS 9") as issued by the IASB in July 2014 with a date of transition of 1 January 2018, which composed changes in accounting policies and resulted in adjustments to the amounts previously recognised in the financial statements. No early adoption of IFRS 9 is applied in prior period by the Group.

The adoption of IFRS 9 has resulted in changes in our accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as *IFRS 7 "Financial Instruments: Disclosures"*.

As permitted by the transitional provisions of IFRS 9, the Group elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings and other reserves of the current period.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.1 New and revised IFRSs effective by 1 January 2018 applied by the Group *(Continued)*

IFRS 9 (Continued)

Consequently, for notes disclosures, the consequential amendments to IFRS 7 disclosures have also only been applied to the current period. The comparative period notes disclosures repeat those disclosures made in the prior year.

Disclosures relating to the impact of the adoption of IFRS 9 on the Group are listed in 2.1.2. Further details of the specific IFRS 9 accounting policies applied in the current period (as well as the previous IAS 39 accounting policies applied in the comparative period) are listed in 2.4 and 2.32.

IFRS 15

IFRS 15 establishes a comprehensive framework for determining when to recognise revenue and how much revenue to recognise through a 5-step approach: (1) Identify the contract(s) with customer; (2) Identify separate performance obligations in a contract; (3) Determine the transaction price; (4) Allocate transaction price to performance obligations; (5) Recognise revenue when performance obligation is satisfied. The core principle is that a company should recognise revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. It moves away from a revenue recognition model based on an earnings process to an asset-liability approach based on transfer of control.

IFRS 15 provides specific guidance on capitalisation of contract cost and licence arrangements. It also includes a cohesive set of disclosure requirements about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.

IFRS 15 replaces the previous revenue standards: IAS 18 Revenue and IAS 11 Construction Contracts, and the related Interpretations on revenue recognition.

Amendments to IAS 40

On 8 December 2016, the IASB issued amendments to IAS 40 – Transfer of Investment Property. These amendments specify that an entity shall transfer a property to, or from, investment property when, and only when, there is a change in use of a property supported by evidence that a change in use has occurred. They also clarify that the list of circumstances set out in IAS 40 is non-exhaustive list of examples of evidence that a change in use has occurred instead of an exhaustive list. The examples have been expanded to include assets under construction and development and not only transfers of completed properties.

Amendments to IAS 28

The IASB Annual Improvements 2014 – 2016 Cycle include the amendments to IAS 28 – Investments in Associates and Joint Ventures. These amendments clarify that the election to measure investees at fair value through profit or loss is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

International Financial Reporting Interpretations Committee ("IFRIC") 22

The IASB issued IFRIC 22 Foreign Currency Transactions and Advance Consideration to clarify the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income when an entity has received or paid advance consideration in a foreign currency.

(All amounts expressed in millions of RMB unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.1 New and revised IFRSs effective by 1 January 2018 applied by the Group *(Continued)*

Amendments to IFRS 2

On 20 June 2016, the IASB issued amendments to IFRS 2 – Classification and Measurement of Share-based Payment Transactions, which provide guidance on three matters regarding classification and measurement. These amendments provide additional guidance on the accounting for cash-settled share-based payments and provision of award with a net settlement feature for withholding tax obligations.

These amendments clarify the measurement basis for cash-settled awards and the accounting for modification from cash-settled awards to equity-settled awards. It also introduces an exception that requires an award to be treated as if it is wholly equity-settled, where it has a net settlement feature for withholding tax obligations.

Amendments to IFRS 4

On 12 September 2016, the IASB issued amendments to IFRS 4, Insurance Contracts, applying IFRS 9 Financial Instruments with IFRS 4, which provides two alternative measures to address the different effective dates of IFRS 9 and the forthcoming insurance contracts standard. These measures include a temporary option for companies whose activities are predominantly connected with insurance to defer the effective date of IFRS 9 until the earlier of the effective date of the forthcoming insurance contracts standard and the annual reporting periods beginning on or after 1 January 2021, as well as an approach that allows an entity to remove from profit or loss the effects of certain accounting mismatches that may occur before the forthcoming insurance contracts standard is applied.

Except the above mentioned impact of IFRS 9 the adoption of the above new IFRSs and amendments to IFRSs issued has no material effects on the Group's operating results, financial position or other comprehensive income.

2.1.2 Changes in accounting policies

(a) Classification and measurement of financial instruments

The measurement category and the carrying amount of financial assets in accordance with IAS 39 and IFRS 9 as at 1 January 2018 are compared as follows:

	31 December 2017	Reclassifications	Remeasurements	1 January 2018 (Restated)
Financial assets				
Cash and balances with central banks	938,571	–	–	938,571
Due from banks and other financial institutions	782,468	–	(1,717)	780,751
Financial investments – financial assets at fair value through profit or loss	227,030	44,423	(151)	271,302
Derivative financial assets	34,007	–	–	34,007
Loans and advances to customers	4,473,255	–	(25,882)	4,447,373
Financial investments – debt instruments at fair value through other comprehensive income	N.A.	369,318	–	369,318
Financial investments – equity investments at fair value through other comprehensive income	N.A.	3,311	–	3,311
Financial investments – available-for-sale	402,138	(402,138)	–	N.A.
Financial investments – debt instruments at amortised cost	N.A.	1,884,194	(736)	1,883,458
Financial investments – loans and receivables	387,733	(387,733)	–	N.A.
Financial investments – held-to-maturity	1,511,375	(1,511,375)	–	N.A.
Other financial assets	96,097	–	(1,239)	94,858
Subtotal	8,852,674	–	(29,725)	8,822,949

(All amounts expressed in millions of RMB unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.2 Changes in accounting policies *(Continued)*

(b) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9

The Group performed a detailed analysis of its business models for managing financial assets and analysis of their cash flow characteristics. The following table reconciles the carrying amounts of financial assets, from their previous measurement category in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on 1 January 2018:

At amortised Cost	31 December 2017 IAS 39 carrying amount	Reclassifications	Remeasurements	1 January 2018 IFRS 9 carrying amount
Cash and balances with central banks				
Opening balance under IAS 39 and closing balance under IFRS 9	938,571			938,571
Due from banks and other financial institutions				
Opening balance under IAS 39	782,468			
Remeasurement: ECL allowance			(1,717)	
Closing balance under IFRS 9				780,751
Other financial assets				
Opening balance under IAS 39	96,097			
Remeasurement: ECL allowance			(1,239)	
Closing balance under IFRS 9				94,858
Loans and advances to customers				
Opening balance under IAS 39	4,473,255			
Subtraction: To FVOCI		(163,962)		
Remeasurement: ECL allowance for loans and advances to customers			(25,925)	
Closing balance under IFRS 9				4,283,368
Financial investments – loans and receivables				
Opening balance under IAS 39	387,733			
Subtraction: To financial investment – amortised cost		(375,078)		
Subtraction: To financial assets at fair value through profit or loss		(12,655)		
Closing balance under IFRS 9				N.A.
Financial investments – held-to-maturity				
Opening balance under IAS 39	1,511,375			
Subtraction: To financial investment – amortised cost		(1,509,116)		
Subtraction: To financial assets at fair value through profit or loss		(2,259)		
Closing balance under IFRS 9				N.A.
Financial investments – at amortised cost				
Opening balance under IAS 39	N.A.			
Addition: From financial investment – loans and receivables (IAS 39)		375,078		
Addition: From financial investment – held-to-maturity (IAS 39)		1,509,116		
Remeasurement: ECL allowance			(736)	
Closing balance under IFRS 9				1,883,458
Total Financial assets at amortised cost	8,189,499	(178,876)	(29,617)	7,981,006

(All amounts expressed in millions of RMB unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.2 Changes in accounting policies *(Continued)*

(b) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (Continued)

At fair value through profit or loss	31 December 2017 IAS 39 carrying amount	Reclassifications	Remeasurements	1 January 2018 IFRS 9 carrying amount
Financial investments – Financial assets at fair value through profit and loss				
Opening balance under IAS 39	227,030			
Addition: From financial investment – loans and receivables		12,655		
Addition: From financial investments – held-to-maturity		2,259		
Remeasurement: From amortised cost to fair value			(151)	
Addition: From financial instruments-available-for-sale financial assets-debt instruments (IAS 39)		24,430		
Addition: From financial instruments-available-for-sale financial assets – fund investments (IAS 39)		2,583		
Addition: From financial instruments-available-for-sale financial assets – equity instruments (IAS 39)		2,496		
Closing balance under IFRS 9				271,302
At fair value through profit or loss (derivatives)				
Opening balance under IAS 39 and closing balance under IFRS 9	34,007			34,007
Total financial assets measured at fair value through profit or loss	261,037	44,423	(151)	305,309

(All amounts expressed in millions of RMB unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.2 Changes in accounting policies *(Continued)*

(b) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (Continued)

Fair value through other comprehensive income (FVOCI)	**31 December 2017 IAS 39 carrying amount**	**Reclassifications**	**Remeasurements**	**1 January 2018 IFRS 9 carrying amount**
Financial investments – available-for-sale				
Opening balance under IAS 39	402,138			
Subtraction: To financial assets at fair value through profit and loss – debt instruments		(24,430)		
Subtraction: To financial assets at fair value through profit and loss – fund investments		(2,583)		
Subtraction: To financial assets at fair value through profit and loss – equity instruments		(2,496)		
Subtraction: To financial investment – FVOCI – debt instruments		(369,318)		
Subtraction: To financial investment – FVOCI – equity instruments		(3,311)		
Closing balance under IFRS 9				N.A.
Financial investments – debt instruments at fair value through other comprehensive income				
Opening balance under IAS 39	N.A.			
Addition: From financial investments – available-for-sale financial assets-debt instruments		369,318		
Closing balance under IFRS 9				369,318
Financial investments – equity investments at fair value through other comprehensive income				
Opening balance under IAS 39	N.A.			
Addition: From financial investments – available-for-sale financial assets-equity instruments		3,311		
Closing balance under IFRS 9				3,311
Loans and advances to customers				
Opening balance under IAS 39	N.A.			
Addition: From loans and advances to customers (IAS 39)		163,962		
Remeasurement: From amortised cost to fair value			43	
Closing balance under IFRS 9				164,005
Total financial assets measured at FVOCI	402,138	134,453	43	536,634
Total financial assets	8,852,674	–	(29,725)	8,822,949

(All amounts expressed in millions of RMB unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.2 Changes in accounting policies *(Continued)*

(c) Reconciliation of impairment allowance balance from IAS 39 to IFRS 9

The following table reconciles the prior period's closing impairment allowance measured in accordance with the IAS 39 incurred loss model to the new impairment allowance measured in accordance with the IFRS 9 expected loss model ("ECL") at 1 January 2018:

Measurement category	Impairment allowance under IAS 39/Provision under IAS 37	Reclassification	ECL	ECL Allowance under IFRS 9
Amortised cost				
Loans and advances to customers	106,001	(807)	25,925	131,119
Due from banks and other financial institutions			1,717	1,717
Financial investments – loans and receivables	2,608	(2,608)		
Financial investments – held-to-maturity	355	(355)		
Financial investments – debt instruments at amortised cost		2,963	736	3,699
Other assets	1,907		1,239	3,146
Subtotal	110,871	(807)	29,617	139,681
FVOCI				
Loans and advances to customers		807	1,189	1,996
Financial investments – available-for-sale	1,537	(1,537)		
Financial investments – at FVOCI		454	438	892
Total	112,408	(1,083)	31,244	142,569

Due to the adoption of IFRS 9, the Group's opening retained earnings reduced from RMB124,514 million to RMB96,257 million, and the opening other reserves increased from RMB298,827 million to RMB300,712 million, and deferred tax assets increased from RMB16,456 million to RMB25,927 million.

(All amounts expressed in millions of RMB unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.3 Standards and amendments that are not yet effective and have not been adopted by the Group

		Effective for annual period beginning on or after
Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture	The amendments were originally intended to be effective for annual periods beginning on or after 1 January 2016. The effective date has now been deferred/removed.
IFRIC 23	Uncertainty over Income Tax	1 January 2019
IFRS 16	Leases	1 January 2019
IFRS 17	Insurance Contracts	1 January 2021
Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23	Annual Improvements to IFRSs 2015 – 2017 cycle	1 January 2019
Amendments to IFRS 9	Prepayment Features with Negative Compensation and Modifications of Financial Liabilities	1 January 2019
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement	1 January 2019
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures	1 January 2019

Amendments to IFRS 10 and IAS 28
The amendments address an inconsistency between IFRS 10 and IAS 28 in the sale and contribution of assets between an investor and its associate or joint venture.

A full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if those assets are in a subsidiary.

IFRIC 23
The IASB issued IFRIC 23 Uncertainty over Income Tax Treatments to clarify how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. The Group anticipates that the adoption of this interpretation will not have a significant impact on the Group's consolidated financial statements.

IFRS 16
IFRS 16 was officially issued in January 2016 and is effective for annual periods beginning on or after 1 January 2019. The new standards improve the identification, breakdown and merger of leases and require lessees to recognize leases in balance sheets. For lessees, the new leasing standards will recognize all the leases in balance sheets as the classification of operating leases and financial leases has been removed. According to new standards, the entity is required to recognize the right-of-use assets and leasing liabilities, and exemptions applied only to short-term and low-value leases. Meanwhile, the new standards improve the also improve the accounting treatment of the lessee on subsequent measurement and leasing changes. The new standards have not undergone substantial changes in the accounting of lessors.

The Group will adopt the standards for annual periods beginning on or after 1 January 2019 and intends to use the simple transition methods stated in the standards to restate the comparative amount for the previous year impacted by the first adoption. On the first day of implementation, the Group will measure the leasing liabilities on the basis of the present value of the remaining lease payment at the interest rate of the lessee's incremental borrowing for the first day of implementation and the right-of-use assets for the leases of inventory using the new standards as from the beginning of the lease period. For short-term and low-value leases, the Group is subject to the recognition exemptions.

The Group expects that the first adoption of the new standards will reduce retained earnings for the beginning balance of 2019, but will not have a significant impact on the financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.3 Standards and amendments that are not yet effective and have not been adopted by the Group (Continued)

IFRS 17

IFRS 17 was issued in May 2017 as replacement for IFRS 4 Insurance Contracts. It requires a current measurement model where estimates are re-measured each reporting period. Contracts are measured using the building blocks of: discounted probability weighted cash flows, an explicit risk adjustment, and a contractual service margin ("CSM") representing the unearned profit of the contract which is recognised as revenue over the coverage period.

The standard allows a choice between recognizing changes in discount rates either in the income statement or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under IFRS 9.

An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers.

There is a modification of the general measurement model called the "variable fee approach" for certain contracts written by life insurers where policyholders share in the returns from underlying items. When applying the variable fee approach the entity's share of the fair value changes of the underlying items is included in the contractual service margin. The results of insurers using this model are therefore likely to be less volatile than under the general model.

The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features.

The Group has not completed its assessment of the impact on the Group's operating results and financial position of adopting IFRS 17.

Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23

The Annual Improvements to IFRSs 2015-2017 Cycle include a number of amendments to various IFRSs, including the amendments IFRS 3 – Business Combinations, the amendments to IFRS 11 – Joint Arrangements, the amendments to IAS 12 – Income Taxes, the amendments to IAS 23 – Borrowing Costs.

Amendments to IFRS 9

On 12 October 2017, the IASB issued amendments to IFRS 9: Prepayment Features with Negative Compensation and Modifications of Financial Liabilities. These amendments permit more assets to be measured at amortised cost than under the previous version of IFRS 9, in particular some prepayable financial assets. These amendments also clarify the accounting for a modification or exchange of a financial liability measured at amortised cost that does not result in the derecognition of the financial liability. The Group anticipates that the adoption of the amendments will not have a significant impact on the Group's consolidated financial statements.

Amendments to IAS 19

On 7 February 2018, the IASB issued amendments to the guidance in IAS 19, 'Employee Benefits', in connection with accounting for plan amendments, curtailments and settlements. The amendments to IAS 19 clarify the accounting for defined benefit plan amendments, curtailments and settlements. They confirm that entities must calculate the current service cost and net interest for the remainder of the reporting period after a plan amendment, curtailment or settlement by using the updated assumptions from the date of the change, and any reduction in a surplus should be recognised immediately in profit or loss either as part of past service cost, or as a gain or loss on settlement. In other words, a reduction in a surplus must be recognised in profit or loss even if that surplus was not previously recognised because of the impact of the asset ceiling. The entities should separately recognise any changes in the asset ceiling through other comprehensive income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.3 Standards and amendments that are not yet effective and have not been adopted by the Group *(Continued)*

Amendments to IAS 28

The amendments clarify the accounting for long-term interests in an associate or joint venture, which in substance form part of the net investment in the associate or joint venture, but to which equity accounting is not applied. Entities must account for such interests under IFRS 9 before applying the loss allocation and impairment requirements in IAS 28.

Except the above mentioned impact of IFRS 16 and IFRS 17, the adoption of the above new IFRSs and amendments to IFRSs issued but not yet effective is not expected to have a material effect on the Group's operating results, financial position or other comprehensive income.

2.2 Consolidation

2.2.1 Subsidiary undertakings

The consolidated financial statements incorporate the financial statements of the Bank and entities (including structured entities) controlled by the Bank and its subsidiaries. Control is achieved when the Bank:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are not consolidated from the date that control ceases.

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 interests in the acquiree at the non-controlling interests' proportionate share of the acquiree's net assets.

The excess of the cost of an acquisition less the fair value of the Group's share of the net identifiable assets of acquired subsidiaries and associates at the date of acquisition is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss.

All intra-group transactions, balances, income and expenses 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.

2.2.2 Transactions with non-controlling interests

For acquisition of additional interests in subsidiaries from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiaries 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 remeasured to its fair value, with the change in carrying amount recognised in profit or loss. 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 are reclassified to profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Consolidation *(Continued)*

2.2.3 Structured entities

Structured entities are entities that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entities, for example when any voting rights relate to administrative tasks only, and key activities are directed by contractual agreement. Structured entities often have restricted activities and a narrow and well defined objective. Examples of structured entities include investment funds, trusts, securitisation vehicles and asset backed financings. Involvement with consolidated and unconsolidated structured entities is disclosed in Note 40 and 41.

2.2.4 Investment in an associate

An associate is an entity over which the Group has significant influence but not control and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results of an associate are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, is recognised immediately in profit or loss.

At each period end, the Group assesses whether these is an indication of possible impairment with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 "Impairment of assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised only to the extent of interests in the associate that are not related to the Group.

2.3 Derivative financial instruments

Derivative financial instruments include, but not limited to, interest rate derivative and foreign exchange derivative. Derivative financial instruments are initially measured at fair value at the date a derivative contract is entered into and are subsequently measured at fair value. Changes in fair value of these derivative financial instruments are recognised in profit or loss. Fair values are obtained from quoted market prices in active market or are determined using valuation techniques, including discounted cash flow model and options pricing model as appropriate. All derivatives are recognised as assets when the fair value is positive and as liabilities when the fair value is negative.

Derivatives embedded in non-derivative host contracts are treated as a separate derivative when their characteristics and risks are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss. These embedded derivatives are separately accounted for at fair value, with changes in fair value recognised in profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 Financial instruments

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset.

At initial recognition, the Group measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, an expected credit loss allowance is recognised for financial assets measured at amortised cost and investments in debt instruments measured at FVOCI, which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the entity recognises the difference as follows:

(a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.

(b) In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

The method of determining fair value

Fair value refers to the price that a market participant may have to pay to sell an asset to receive or transfer a liability in an orderly transaction that occurs on a measurement date. For financial instruments with active markets, the Group uses quotations from active markets to determine their fair value, and for financial instruments where there is no active market, the Group uses valuation techniques to determine its fair value. Valuation techniques include references to prices used in recent market transactions by parties familiar with the situation and voluntary transactions, the current fair value of other financial instruments with reference to the same substantially, the discounted cash flow method and the option pricing model.

Measurement methods

Amortised cost and effective interest rate

The amortised cost is the amount at which the financial asset or financial liability 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, for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees. For purchased or originated credit-impaired ('POCI') financial assets – assets that are credit-impaired at initial recognition – the Group calculates the credit-adjusted effective interest rate, which is calculated based on the amortised cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows.

When the Group revises the estimates of future cash flows, the carrying amount of the respective financial assets or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 Financial instruments *(Continued)*

2.4.1 Financial assets

Classification and subsequent measurement

From 1 January 2018, the Group has applied IFRS 9 and classifies its financial assets in the following measurement categories:

- Fair value through profit or loss (FVPL);
- Fair value through other comprehensive income (FVOCI); or
- Amortised cost.

The classification requirements for debt and equity instruments are described below:

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds and trade receivables purchased from clients in factoring arrangements without recourse.

Classification and subsequent measurement of debt instruments depend on:

(i) The Group's business model for managing the asset; and

(ii) The cash flow characteristics of the asset.

Based on these factors, the Group classifies its debt instruments into one of the following three measurement categories:

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured from these financial assets. According to the business category, these financial assets are presented as 'cash and balances with central banks', 'due from banks and other financial institutions', 'loans to customers' and 'financial investments – debt instruments at amortised cost' respectively. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

Fair value through other comprehensive income (FVOCI): Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. According to the business category, respectively, listed as 'Loans to customers' and 'financial investments – debt instruments at fair value through other comprehensive income'. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in 'Net gains arising from investment activities'. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

Fair value through profit or loss: Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. According to the business category, respectively, listed as 'Loans and advances to customers' and 'Financial investments – Financial assets at fair value through investments'. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented in the profit or loss statement within 'Net gains arising from trading activities' in the period in which it arises. The period loss or profit reckoned with of these assets is recorded as 'Net gains arising from trading activities'.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 Financial instruments *(Continued)*

2.4.1 Financial assets *(Continued)*

Classification and subsequent measurement (Continued)

Debt instruments *(Continued)*

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

SPPI: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

The Group reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

The Group subsequently measures all equity investments at fair value through profit or loss, except where the Group's management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income, listed as 'Financial investments – financial assets at fair value through profit or loss'. The Group's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to sell. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Dividends, when representing a return on such investments, continue to be recognised in profit or loss as 'Net gains arising from investment activities' when the Group's right to receive payments is established.

Gains and losses on equity investments at FVPL are included in the Net gains arising from trading activities line in the statement of profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 Financial instruments *(Continued)*

2.4.1 Financial assets *(Continued)*

Impairment

The Group assesses on a forward-looking basis the expected credit losses ('ECL') associated with its debt instrument assets carried at amortised cost and FVOCI and with the exposure arising from loan commitments and financial guarantee contracts. The Group recognises a loss allowance for such losses at each reporting date. The measurement of ECL 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.

Regarding these judgment and estimates, please refer to note 20.

Modification of loans

The Group sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Group assesses whether or not the new terms are substantially different to the original terms. The Group does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- Whether any substantial new terms are introduced, such as a profit share/equity-based return that substantially affects the risk profile of the loan.
- Significant extension of the loan term when the borrower is not in financial difficulty.
- Significant change in the interest rate.
- Change in the currency the loan is denominated in.
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Group derecognises the original financial asset and recognises a 'new' asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Group also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 Financial instruments *(Continued)*

2.4.1 Financial assets *(Continued)*

Derecognition other than on a modification

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Group transfers substantially all the risks and rewards of ownership, or (ii) the Group neither transfers nor retains substantially all the risks and rewards of ownership and the Group has not retained control.

The Group enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as 'pass through' transfers that result in derecognition if the Group:

(i) Has no obligation to make payments unless it collects equivalent amounts from the assets;

(ii) Is prohibited from selling or pledging the assets; and

(iii) Has an obligation to remit any cash it collects from the assets without material delay.

Collateral (shares and bonds) furnished by the Group under standard repurchase agreements and securities lending and borrowing transactions are not derecognised because the Group retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met. This also applies to certain securitisation transactions in which the Group retains a subordinated residual interest.

When the contractual rights to receive the cash flows from the assets have been transferred, and the Group neither transfers nor retains substantially all the risks and rewards of ownership, and the Group has retained control of the transferred assets, the Group applies continuing involvement approach. Under this approach, the Group continues to recognise the transferred asset to the extent of its continuing involvement and recognise the associated liability, to reflect the rights and obligations retained by the Group. The net carrying amount of the transferred asset and associated liability is: (a) the amortised cost of the rights and obligations retained by the Group, if the transferred asset is measured at amortised cost; or (b) equal to the fair value of the rights and obligations retained by the Group when measured on a stand-alone basis, if the transferred asset is measured at fair value.

Asset securitisation

As part of its operational activities, the Group securitises financial assets, generally through the sale of these assets to structured entities which then issue securities to investors. The Group holds part or all of the subordinated tranche notes, which are not transferrable before both the principals and interests of the senior tranche notes are repaid. The Group serves as the asset management supplier, providing services including loan collection for the investment pool, keeping accounting records related to the investment pool and issuing reports as the service agency. The assets under securitisation are used to repay the principals and interests of the senior tranche notes first after deducting related taxation and expenses, and the remaining assets under securitisation are repaid to the Group and subordinated tranche notes investors. The Group derecognises the transferred assets in full or in part based on the extent of the risks and rewards retained over.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 Financial instruments *(Continued)*

2.4.1 *Financial assets* *(Continued)*

Asset securitisation (Continued)

The Group evaluates the extent to which it transfers the risks and rewards of ownership of the financial assets to the other party and determines whether it retains control while applying the accounting policy in respect of asset securitisation.

(1) The financial asset is derecognised when the Group transfers substantially all the risks and rewards of ownership of the financial asset.

(2) The financial asset continues to be recognised when the Group retains substantially all the risks and rewards of ownership of the financial asset.

(3) When the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset and does not retain control it derecognises the financial asset and recognises separately as assets or liabilities any rights and obligations created or retained in the transfer.

(4) When the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset and retains control, it continues to recognise the financial asset to the extent of its continuing involvement in the financial asset. The Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

2.4.2 *Financial liabilities*

Classification and subsequent measurement

In both the current and prior period, financial liabilities are classified as liabilities measured at amortised cost, except for:

- Financial liabilities at fair value through profit or loss: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in the trading booking) and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the liability are also presented in profit or loss;

- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition or when the continuing involvement approach applies. When the transfer of financial asset did not qualify for derecognition, a financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Group recognises any expense incurred on the financial liability; when continuing involvement approach applies, see note 2.31(e); and

- Financial guarantee contracts and loan commitments (refer to Note 2.27).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 Financial instruments *(Continued)*

2.4.2 Financial liabilities *(Continued)*

Derecognition

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

The exchange between the Group and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is more than 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

A financial instrument is an equity instrument if, and only if, both conditions (i) and (ii) below are met:

(i) The financial instrument includes no contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; and

(ii) If the financial instrument will or may be settled in the Group's own equity instruments, it is a non-derivative instrument that includes no contractual obligations for the Group to deliver a variable number of its own equity instruments; or a derivative that will be settled only by the Group exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

Equity instruments issued by the Group are recorded at the fair value of proceeds received, net of direct issuance expenses.

2.4.3 Derivatives and hedging activities

The Group has elected to apply the hedge accounting requirements of IFRS 9.

The Group has not provided comparative information for periods before the date of initial application of IFRS 9 for the new disclosures introduced by IFRS 9 as a consequential amendment to IFRS 7, as permitted by IFRS 7 paragraph 44Z.

Derivatives are initially recognised at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 Financial instruments *(Continued)*

2.4.3 Derivatives and hedging activities *(Continued)*

Certain derivatives are embedded in hybrid contracts, such as the conversion option in a convertible bond. If the hybrid contract contains a host that is a financial asset, then the Group assesses the entire contract as described in the financial assets section above for classification and measurement purposes. Otherwise, the embedded derivatives are treated as separate derivatives when:

(i) Their economic characteristics and risks are not closely related to those of the host contract;

(ii) A separate instrument with the same terms would meet the definition of a derivative; and

(iii) The hybrid contract is not measured at fair value through profit or loss.

These embedded derivatives are separately accounted for at fair value, with changes in fair value recognised in the statement of profit or loss unless the Group chooses to designate the hybrid contracts at fair value through profit or loss.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated and qualifies as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

(a) Hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges); or

(b) Hedges of highly probable future cash flows attributable to a recognised asset or liability (cash flow hedges).

The Group documents, at the inception of the hedge, the relationship between hedged items and hedging instruments, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

(a) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the statement of profit or loss, together with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity and recorded as net interest income.

(b) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the statement of profit or loss.

Amounts accumulated in equity are recycled to the statement of profit or loss in the periods when the hedged item affects profit or loss. They are recorded in the income or expense lines in which the revenue or expense associated with the related hedged item is reported.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised in the periods when the hedged item affects profit or loss. When a forecast transaction is no longer expected to occur (for example, the recognised hedged asset is disposed of), the cumulative gain or loss previously recognised in other comprehensive income is immediately reclassified to the statement of profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 Financial instruments *(Continued)*

2.4.4 Offsetting financial assets and financial liabilities

When the Group has a statutory right to offset recognized financial assets and financial liabilities and is currently enforceable, and the Group plans to settle the financial assets in net or at the same time and liquidate the financial liability, the amounts of financial assets and financial liabilities are set out in the balance sheet on a mutually offset period. In addition, financial assets and financial liabilities are shown separately in the balance sheet and are not offset against each other.

2.5 Interest income and expense

Interest income and expense are recognised in profit or loss for interest-bearing financial instruments using the effective interest method (See Note 2.4).

2.6 Fee and commission income

Fee and commission income is recognised in the consolidated statement of profit or loss when the corresponding service is provided. Origination or commitment fees received by the Group which result in the creation or acquisition of a financial asset are deferred and recognised as an adjustment to the effective interest rate. If the commitment expires without the Group making a loan or anticipating will not, the fee is recognised as revenue on expiry.

2.7 Dividend income

Dividends are recognised when the right to receive the dividends is established.

2.8 Assets transferred under repurchase agreements

(a) Financial assets sold under repurchase agreements

Financial assets sold subject to agreements with a commitment to repurchase at a specific future date at a fixed or determinable price are not derecognised in the statement of financial position. The proceeds from selling such assets are presented under "due to banks and other financial institutions" in the statement of financial position. The difference between the selling price and repurchasing price is recognised as interest expense during the term of the agreement using the effective interest method.

(b) Financial assets held under resale agreements

Financial assets that have been purchased under agreements with a commitment to resell at a specific future date are not recognised in the statement of financial position. The cost of purchasing such assets is presented under "due from banks and other financial institutions" in the statement of financial position. The difference between the purchasing price and reselling price is recognised as interest income during the term of the agreement using the effective interest method.

2.9 Precious metals

Precious metals that are not related to the Group's trading activities are initially measured at acquisition cost and subsequently measured at the lower of cost and net realisable value. Precious metals that are related to the Group's trading activities are initially and subsequently recognised at fair value, with changes in fair value arising from re-measurement recognised directly in profit or loss in the period in which they arise.

(All amounts expressed in millions of RMB unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.10 Property and equipment

The Group's property and equipment mainly comprise land and buildings, equipment, construction in progress, transportation equipment and property improvement.

The assets purchased or constructed are initially measured at acquisition cost.

Subsequent expenditures incurred for the property and equipment are included in the cost of the property and equipment if it is probable that economic benefits associated with the asset will flow to the Group and the subsequent expenditures can be measured reliably. Meanwhile the carrying amount of the replaced part is derecognised. Other subsequent expenditures are recognised in profit or loss in the period in which they are incurred.

Depreciation is calculated on the straight-line method to write down the cost of such assets to their residual values over their estimated useful lives. The residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each financial reporting date.

Land and buildings comprise primarily branch office premises and office premises. The estimated useful lives, depreciation rate and estimated residual value rate of land and buildings, equipment, transportation equipment and property improvement are as follows:

Type of assets	**Estimated useful lives**	**Estimated residual value rate**	**Depreciation rate**
Land and buildings	25 years – 50 years	3%	1.94% – 3.88%
Equipment	3 years – 11 years	3%	8.82% – 32.33%
Transportation equipment (excluding equipment under operating leases)	4 years – 8 years	3%	12.13% – 24.25%
Property improvement	Over the shorter of the economic useful lives and remaining lease terms		

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Construction in progress is measured at its actual costs. The actual costs include various construction expenditures during the construction period and other relevant costs. Construction in progress is not depreciated. Construction in progress is transferred to a property and equipment when it is ready for intended use.

Equipment under operating leases where the Group is the lessor is aircraft or vessel. The estimated useful lives and depreciation rate of the aircraft or vessel are determined considering their conditions and the estimated residual values are determined by external appraiser using historical data on an item-by-item basis. The estimated useful lives range from 5 to 25 years.

2.11 Foreclosed assets

Foreclosed assets are initially recognised at fair value. At each reporting date, foreclosed assets are subsequently measured at lower of its carrying amount or fair value less cost of sale. When the fair value less cost of sale is lower than the foreclosed asset's carrying amount, an impairment loss is recognised in profit or loss.

When a foreclosed asset is disposed, the difference between the disposal proceeds and the carrying amount is recognised in profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.12 Land use rights

Land use rights are classified as other assets and amortised using the straight-line method over the lease term.

2.13 Intangible assets

An intangible asset is measured initially at cost. When an intangible asset with a finite useful life is available for use, its original cost is amortised over its estimated useful life using the straight-line method. An intangible asset with an indefinite useful life is not amortised.

For an intangible asset with a finite useful life, the Group reviews the useful life and amortisation method at the end of each reporting period, and makes adjustments when necessary.

An intangible asset is derecongnised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecongnised.

2.14 Investment property

Investment property is a property held to earn rentals or for capital appreciation or both and initially measured at cost.

As there is an active property market in the location in which the Group's investment property is situated, and the Group can obtain the market price and other relevant information regarding the same or similar type of property from the property market so as to reasonably estimate the fair value of the investment property; therefore, the Group uses the fair value model for subsequent measurement of the investment property, with changes in the fair value included in profit or loss for the period in which they arise.

When an investment property is sold, transferred, retired or damaged, the Group recognises the amount of any proceeds on disposal net of the carrying amount and related taxes in profit or loss for the period.

2.15 Impairment of non-financial assets

At the end of the reporting period or whenever there is an indication that the non-financial assets are impaired, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately.

Goodwill, intangible assets with indefinite useful life and intangible assets not yet available for use are tested for impairment annually, irrespective of whether there is any indication that the assets may be impaired.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but the increased carrying amount should not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised in profit or loss immediately.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.16 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

(a) The Group as lessor

At the commencement of the lease term, the aggregate of the minimum lease receivable at the inception of the lease and the initial direct costs is recognised as a finance lease receivable, and the unguaranteed residual value is recorded at the same time. The difference between the aggregate of the minimum lease receivable, the initial direct costs and the unguaranteed residual value, and the aggregate of their present values is recognised as unearned finance income. Unearned finance income is recognised as finance income for the period using the effective interest method over the lease term. Contingent rents are credited to profit or loss in the period in which they are actually incurred. The net amount of financial lease receivables less unearned finance income is presented as other assets in the statement of financial position.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

(b) The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis over the lease term.

2.17 Cash and cash equivalents

Cash and cash equivalents are assets with a maturity of less than 3 months from the date of acquisition or highly liquid assets with an original maturity of less than three months, which are readily convertible into known amounts of cash and subject to an insignificant risk of changes in value.

2.18 Provisions

Provisions are recognised when the Group has a present obligation related to a contingency, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account factors pertaining to a contingency such as the risks, uncertainties and time value of money. Where the effect of the time value of money is material, the amount of the provision is determined by discounting the related future cash outflows.

Where all or some of the expenditure required to settle a provision is expected to be reimbursed by a third party, the reimbursement is recognised as a separate asset only when it is virtually certain that reimbursement will be received, and the amount of reimbursement recognised does not exceed the carrying amount of the provision.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.19 Current and deferred income taxes

Income tax expense represents the sum of the tax currently payable and deferred tax.

(a) Current income tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

(b) Deferred income tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income, in which case the current and deferred tax are also recognised in other comprehensive income.

For the purposes of measuring deferred tax liabilities or deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.20 Share capital

(a) Share capital

Share capital comprises ordinary shares issued.

(b) Share issue costs

External costs directly attributable to the issuance of new shares are shown in equity as a deduction from the proceeds.

2.21 Dividend

(a) Dividends on ordinary shares

Dividends on ordinary shares are recognised in the period in which they are declared and approved by the Bank's shareholders.

(b) Dividends on preference shares

Preference share dividend distribution is recognised as a liability in the Group's and the Bank's financial statements in the period in which the dividends are approved by the Board of Directors of the Bank.

2.22 Acceptances

Acceptances comprise the Group's commitments on payment for bills that are issued to customers. Acceptances are accounted for as financial guarantees and credit related commitments and are disclosed as contingent liabilities and commitments.

2.23 Employee benefits

(a) Staff benefit and retirement benefit obligations

In the reporting period in which an employee has rendered services, the Group recognises the employee benefits payable for those services as a liability. The Group participates in the employee social security systems, such as basic pensions, medical insurance, housing funds and other social securities established by the government in accordance with relevant requirements. The related expenditures are charged to profit or loss in the period when they are incurred.

The Group pays supplementary retirement benefits to employees in Mainland China who retired before 31 December 2008. The Group accrues a liability based on actuarial techniques and recognises all actuarial gains and losses in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income will not be reclassified to profit or loss. Past service cost is recognised in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset.

Employees in Mainland China who retired after 1 January 2009 participate in the defined contribution plan established (the "Annuity Plan") by the Group. The Group contributes a certain portion of the employees' gross salaries to the Annuity Plan. Related expenses are recognised in profit or loss when incurred.

The Group pays the welfare benefits for employees, who have not yet reached the statutory retirement age limit and are approved by the Group to voluntarily retire from their employment, from the internal retirement date to the statutory retirement age limit. These welfare benefits are recognised in profit or loss based on the discounted cash flow calculation over the implementation period. The Group reviews present value of the welfare benefits on each reporting date, with any changes recognised in profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.23 Employee benefits *(Continued)*

(b) Share-based compensation

A share-based payment is a transaction which the Group grants equity instruments, or incurs liabilities for amounts that are determined based on the price of equity instruments, in return for services rendered by employees. The Group's share-based payments are cash-settled share-based payments.

Cash-settled share-based payments are measured at the fair value of the liabilities incurred by the Group, which are determined based on the price of the share or other equity instruments. Until the liability is settled, the Group remeasures the fair value of the liability at each reporting date and at the date of settlement, with any changes in fair value recognised in profit or loss for the period.

The value of share appreciation rights ("SARs") granted by the Group is determined by applying the Binomial Option Pricing Model.

2.24 Foreign currency translation

Renminbi ("RMB") is the currency of the primary economic environment in which the Bank and the Group's domestic subsidiaries operate. Therefore, the Bank and the Group's domestic subsidiaries choose RMB as their functional currency. The Bank and the Group's foreign subsidiary choose its functional currency on the basis of the primary economic environment in which it operates. The Group adopts RMB to prepare its financial statements.

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions.

At the reporting date, foreign currency monetary items are translated into RMB using the spot exchange rates at the reporting date. Exchange differences arising from the differences between the spot exchange rates prevailing at the reporting date and those on initial recognition or at the previous reporting date are recognised in profit or loss for the period, except that (1) exchange differences related to hedging instruments for the purpose of hedging against foreign exchange risks are accounted for using hedge accounting; (2) exchange differences arising from non-monetary items at fair value through other comprehensive income (such as shares) denominated in foreign currencies and changes in the carrying amounts (other than the amortised cost) of monetary items at fair value through other comprehensive income are recognised as other comprehensive income; and (3) exchange differences arising on a foreign currency monetary item that forms part of the Bank's net investment in a foreign operation.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income.

On disposal of the Group's entire interest in a foreign operation, or upon a loss of control over a foreign operation due to disposal of certain interest in it or other reasons, the Group transfers the accumulated exchange differences arising on translation of financial statements of this foreign operation and foreign currency monetary items that form part of the net investment in such foreign operation attributable to the owners' equity of the Group and presented under shareholder's equity in the statement of financial position, to profit or loss in the period in which the disposal occurs.

In case of a disposal or other reason that does not result in the Group losing control over a foreign operation, the proportionate share of accumulated exchange differences arising on translation of financial statements are re-attributed to non-controlling interests and are not recognised in profit and loss. For partial disposals of equity interests in foreign operations which are associates, the proportionate share of the accumulated exchange differences arising on translation of financial statements of foreign operations is reclassified to profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.25 Contingent liabilities and contingencies

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.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable and the amount can be reliably measured, it will then be recognised as a provision.

2.26 Insurance contracts

(a) Insurance contracts classification

Insurance contracts are those contracts under which the Group has accepted significant insurance risk, relative to an insured event or occurrence. The Group issues primarily life insurance contracts, which insure events associated with mortality over a long duration. The Group also issues non-life insurance contracts, which cover short-term casualty and health insurance risk. When necessary, the Group enters into reinsurance contracts to transfer insurance risks to a reinsurer. A significant insurance risk test is performed at inception of the insurance contracts.

Some insurance contracts contain both an insurance component and a deposit component. The Group unbundles those components, if the insurance component and the deposit component are separately measurable. The unbundled insurance component is accounted for according to IFRS 4 — Insurance Contracts and the unbundled deposit component is accounted for as a financial liability under investment contract liabilities.

(b) Insurance income recognition

Premiums from long-term life insurance contracts are recognised as revenue when due from policyholders. Premiums related to short-term non-life insurance contracts are recognised when received at the inception of the policy, as unearned insurance premiums in the consolidated statement of financial position, and are amortised on a straight-line basis into the consolidated income statement over the term of the policy. When the Group has transferred insurance risk through reinsurance contracts, the Group calculates the amount of premium ceded and the reinsurers' share of expenses and recognises them through the consolidated income statement in accordance with the terms of the reinsurance contracts.

(c) Insurance contract reserves

Insurance contract liabilities are measured based on a reasonable estimate of the amount of payments that the Group will be required to make to fulfil its obligations under the insurance contracts, which represents the difference between expected future cash outflows and inflows related to such contracts. A reasonable estimate of expected future net cash flows is determined based on information currently available as at the end of the reporting period. The Group has considered the impact of time value in the liability calculation for long-term life insurance.

The Group performs liability adequacy tests based on information currently available, as at the reporting date. Additional insurance contract liabilities should be recorded if any deficiency exists.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.27 Financial guarantee contracts and credit related 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 others on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of:

- The amount of the loss allowance (calculated as described in Note 3.1.2); and
- The premium received on initial recognition less income recognised in accordance with the principles of IFRS 15.

Loan commitments provided by the Group are measured as the amount of the loss allowance (calculated as described in Note 3.1.2). The Group has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument. For loan commitments and financial guarantee contracts, the loss allowance is recognised as an Provision.

2.28 Fiduciary activities

In activities where the Group acts in a fiduciary capacity such as trustee, custodian or agent, the assets and income arising from the transaction together with the related undertakings to return the assets to customers are excluded from the Group's consolidated financial statements.

The Group conducts entrusted lending for the third-party lenders. The Group grants loans to borrowers, as trustee, according to the instruction of the third-party lenders who fund these loans. The Group is responsible for the arrangement and collection of the entrusted loans and receives a commission for the services rendered. As the Group does not assume the risks and rewards of the entrusted loans and does not provide funding for the corresponding entrusted funds, the entrusted loans are not recognised as assets and liabilities of the Group.

2.29 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Group has determined the senior management team represented by the governor as its chief operating decision maker.

An operating segment is a component of the Group with all of the following conditions are satisfied: (1) that component can earn revenues and incur expenses from ordinary activities; (2) the component's operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and (3) discrete financial information for the component is available to the Group. If two or more operating segments have similar economic characteristics, and certain conditions are satisfied, they may be aggregated into a single operating segment. Intra-segment income and expenses are eliminated. Income and expenses directly associated with each segment are considered in determining segment performance.

The Group has the following segments: Northern China, North Eastern China, Eastern China, Central and Southern China, Western China, Head Office, and Overseas.

2.30 Offset financial assets and liabilities

Financial assets and 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 assets and settle the liability simultaneously.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.31 Critical accounting estimates and judgments in applying accounting policies

The preparation of financial statements in conformity with IFRSs and the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and of the Hong Kong Companies Ordinance require the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies.

(a) Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior (e.g. the likelihood of customers defaulting and the resulting losses). Note 3.1 Specifies the parameters, assumptions and estimation techniques used in the measurement of expected credit loss and also discloses the sensitivity of expected credit losses to changes in these factors.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Segmentation of business operations having similar credit risk characteristics, selection of appropriate models and determination of relevant key measurement parameters;
- Criteria for determining whether or not there was a significant increase in credit risk, or a default or impairment loss was incurred;
- Economic indicators for forward-looking measurement, and the application of economic scenarios and weightings;
- Management overlay adjustments due to significant uncertain factors not covered in the models; and
- The estimated future cash flows for corporate loans and advances in stage 3.

Detailed information about the judgements and estimates made by the Group in the above areas is set out in note 3.1.

(b) Fair value of financial instruments

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques (e.g. discounted cash flow model). To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty's), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

(c) Income taxes

The Group is subject to income tax in various jurisdictions; principally, in Mainland China and Hong Kong. Significant estimates are required in determining the provision for income tax. There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated issues from tax audit based on estimates of whether additional taxes will be due. In particular, the deductibility of certain items in PRC is subject to tax authority's approval. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred income tax and current tax liabilities and deferred income tax assets and liabilities in the period during which such a determination is made.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.31 Critical accounting estimates and judgments in applying accounting policies *(Continued)*

(d) Consolidation of structured entities

As the Group acts as the asset manager in a structured entity, the Group will evaluate whether, in the case of the structured entity, the Group exercises decision-making power as the principal or agent. The Group exercises decision-making power primarily on behalf of other parties (other investors in the structured entity) if it is merely agent and therefore does not have control over the structured entity. However, if the Group is recognized to be primarily representing its own exercise of decision-making power, it is the primary principal and thus does have control over the structured entity. In the evaluation, the Group comprehensively takes into account a wide range of factors, such as the scope of the decision-making power of the asset manager, the rights held by other parties, the remuneration level received by the Group for management service, and the risk exposure to variable returns arising from any other arrangement (such as direct investments).

(e) Derecognition of financial assets

In judging whether the transaction in which a loan transfer through packaging and asset securitization is consistent with the termination confirmation of a financial asset, the Group needs to assess whether the Group meets the criteria for the transfer of financial assets and whether almost all risks and rewards in the ownership of the loan are transferred. If there is neither a transfer nor a retention of almost all the risks and rewards on the ownership of the transferred loan, the Group will further assess whether control over the transferred loan has been retained. In assessing and judging, the Group has taken into account a wide range of factors, such as whether trading arrangements are accompanied by repurchase clauses. The Group sets situational assumptions and uses the future cash flow discount model for risk and compensation transfer testing. The Group de-recognised the loan only if the loan has been transferred and almost all risks and benefits in ownership have been transferred to another subject. If the Group retains almost all the risks and rewards associated with the ownership of the transferred loan, it shall continue to confirm the loan and at the same time recognize the proceeds received as a financial liability. If the Group has neither transferred nor retained almost all of the risks and rewards in the ownership of the loan and has not waived its control over the loan, the financial assets concerned are recognized to the extent that the loan continues to be involved and the relevant liability is recognized accordingly.

2.32 Accounting policies for financial instruments guidelines during the comparative period

2.32.1 Hedge accounting

The Group designates certain derivatives as hedging instruments for fair value hedges or cash flow hedges.

At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values of the hedged item attributable to the hedged risk.

Fair value hedges

Fair value hedge is a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss.

The changes in fair value of hedging instruments that are designated and qualify as fair value hedges are recorded in profit or loss, together with the changes in fair value of the hedged item attributable to the hedged risk. The net difference is recognised as ineffectiveness in the profit or loss.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity. If the hedged item is de-recognised, the unamortised carrying value adjustment is recognised immediately in the profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.32 Accounting policies for financial instruments guidelines during the comparative period *(Continued)*

2.32.1 *Hedge accounting* *(Continued)*

Cash flow hedge

Cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability (such as all or some future interest payments on variable rate debt) or a highly probable forecast transaction that could ultimately affect the 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 and accumulated in equity in the “capital reserve”. The ineffective portion is recognised immediately in the profit or loss.

Amounts accumulated in equity are reclassified to the profit or loss in the same periods when the hedged item affects the profit or loss.

When a hedging instrument expires or is sold, or the hedge designation is revoked or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss on the hedging instrument existing in equity at that time remains in equity and is reclassified to the profit or loss when the forecast transaction ultimately occurs. When a forecast transaction is no longer expected to occur, the cumulative gain or loss existing in equity is immediately transferred to the profit or loss.

2.32.2 *Financial assets*

The Group’s financial assets are initially measured at fair value and classified into one of the four categories, including financial assets at fair value through profit or loss, held-to-maturity investments, available-for-sale financial assets and loans and receivables. Financial investments comprise held-to-maturity investments, available-for-sale financial assets and debt securities classified as loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss have two subcategories, including financial assets held for trading and those designated at fair value through profit or loss on initial recognition.

A financial asset is classified as held for trading if one of the following conditions is satisfied: (1) It has been acquired principally for the purpose of selling in the near term; or (2) On initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and there is objective evidence that the Group has a recent actual pattern of short-term profit-taking; or (3) It is a derivative, except for a derivative that is designated and effective as a hedging instrument, or a financial guarantee contract, or a derivative that is linked to and must be settled by delivery of an unquoted equity instrument (without a quoted price in an active market) whose fair value cannot be reliably measured.

A financial asset may be designated as at fair value through profit or loss upon initial recognition only when one of the following conditions is satisfied: (1) Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise result from measuring assets or recognising the gains or losses on them on different bases; or (2) The financial asset forms part of a group of financial assets or a group of financial assets and financial liabilities, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group’s documented risk management or investment strategy, and information about the grouping is reported to key management personnel on that basis; or (3) It forms part of a contract containing one or more embedded derivatives, and IAS 39 – Financial Instruments: Recognition and Measurement permits the entire combined contract(asset or liability) to be designated at financial assets at fair value through profit or loss.

Financial assets at fair value through profit or loss are subsequently measured at fair value. Any gains or losses arising from changes in the fair value and any dividend or interest income earned on the financial assets are recognised in profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.32 Accounting policies for financial instruments guidelines during the comparative period *(Continued)*

2.32.2 *Financial assets* *(Continued)*

(b) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has the positive intention and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method, less any identified impairment losses.

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative that are not either designated or classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

Available-for-sale financial assets are measured at fair value at the end of the reporting period. Changes in fair value are recognised in other comprehensive income, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in other is comprehensive income accumulated at which time in equity is reclassified to profit or loss.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at the end of the reporting period.

Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

Interest income on available-for-sale debt instruments are calculated using the effective interest method and recognised in profit or loss.

(d) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are carried at amortised cost using the effective interest method, less any identified impairment losses.

(e) Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.32 Accounting policies for financial instruments guidelines during the comparative period *(Continued)*

2.32.2 *Financial assets* *(Continued)*

(f) Asset securitisation

As part of its operational activities, the Group securitises financial assets, generally through the sale of these assets to structured entities which then issue securities to investors. The Group holds part or all of the subordinated tranche notes, which are not transferrable before both the principals and interests of the senior tranche notes are repaid. The Group serves as the asset management supplier, providing services including loan collection for the investment pool, keeping accounting records related to the investment pool and issuing reports as the service agency. The assets under securitisation are used to repay the principals and interests of the senior tranche notes first after deducting related taxation and expenses, and the remaining assets under securitisation are repaid to the Group and subordinated tranche notes investors. The Group derecognises the transferred assets in full or in part based on the extent of the risks and rewards retained over.

The Group evaluates the extent to which it transfers the risks and rewards of ownership of the financial assets to the other party and determines whether it retains control while applying the accounting policy in respect of asset securitisation.

(1) The financial asset is derecognised when the Group transfers substantially all the risks and rewards of ownership of the financial asset.

(2) The financial asset continues to be recognised when the Group retains substantially all the risks and rewards of ownership of the financial asset.

(3) When the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset and does not retain control it derecognises the financial asset and recognises separately as assets or liabilities any rights and obligations created or retained in the transfer.

(4) When the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset and retains control, it continues to recognise the financial asset to the extent of its continuing involvement in the financial asset. The Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

2.32.3 *Impairment of financial assets*

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.32 Accounting policies for financial instruments guidelines during the comparative period *(Continued)*

2.32.3 *Impairment of financial assets* *(Continued)*

Objective evidence of impairment of financial assets could include the following observable events:

(1) Significant financial difficulty of the issuer or obligor.

(2) A breach of contract, such as a default or delinquency in interest or principal payments.

(3) The lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider.

(4) It becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

(5) The disappearance of an active market for that financial asset because of financial difficulties.

(6) Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including: adverse changes in the payment status of borrowers in the group; and national or local economic conditions that correlate with defaults on the assets in the group.

(7) Any significant change with an adverse effect that has taken place in the technological, market, economic or legal environment in which the issuer operates and indicates that the cost of investments in equity instruments may not be recovered.

(8) A significant or prolonged decline in the fair value of equity instrument investments; and

(9) Other objective evidence indicating impairment of the financial asset.

(a) Impairment of financial assets carried at amortised cost

For a financial asset that is individually significant, the Group assesses the asset individually for impairment. For a financial asset that is not individually significant, the Group assesses the asset individually for impairment or includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset (whether significant or not), it includes the asset in a group of financial assets with similar credit risk characteristics and collectively reassesses them for impairment. Assets for which an impairment loss is individually recognised are not included in a collective assessment of impairment.

If financial assets carried at amortised cost are impaired, the carrying amounts of the financial assets are reduced to the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The amount of reduction is recognised as an impairment loss in profit or loss and is recorded through the use of an allowance account. When a financial asset is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss. If, subsequent to the recognition of an impairment loss on financial assets carried at amortised cost, there is objective evidence of a recovery in value of the financial assets which can be related objectively to an event occurring after the impairment is recognised, the previously recognised impairment loss is reversed. However, the reversal is made to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.32 Accounting policies for financial instruments guidelines during the comparative period *(Continued)*

2.32.3 *Impairment of financial assets* *(Continued)*

(b) Impairment of available-for-sale financial assets

For available-for-sale equity instruments, a significant or prolonged decline in fair value below cost is considered to be objective evidence of impairment. In determining whether a decline in fair value has been significant or prolonged, the Group considers if the fair value of an available-for-sale equity instrument as at the balance sheet date is lower than 50% (including 50%) of its initial cost of investment or lower than its initial cost of investment for more than one year (including one year) together with other relevant considerations.

When an available-for-sale financial asset is impaired, the cumulative loss arising from decline in fair value previously recognised directly in other comprehensive income is reclassified to profit or loss. The cumulative loss reclassified is the balance of the initial acquisition cost of the asset deducted by the recovered principal, amortised amount, the current fair value, and the impairment loss that has been previously recorded in profit or loss.

If, subsequent to the recognition of an impairment loss on available-for-sale financial assets, there is objective evidence of a recovery in value of the financial assets which can be related objectively to an event occurring after the impairment is recognised, the previously recognised impairment loss is reversed. The amount of reversal of impairment loss on available-for-sale equity instruments is recognised as other comprehensive income, while the amount of reversal of impairment loss on available-for-sale debt investments is recognised in profit or loss.

(c) Impairment of financial assets measured at cost

If an impairment loss has been incurred on an investment in unquoted equity instrument (without a quoted price in an active market) whose fair value cannot be reliably measured, or on a derivative financial asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the carrying amount of the financial asset is reduced to the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. The amount of reduction is recognised as an impairment loss in profit or loss. The impairment loss on such financial asset is not reversed once it is recognised.

2.32.4 *Financial liabilities/Equity instruments*

The Group classifies financial liabilities and equity instruments according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

All financial liabilities are initially measured at fair value and classified either as financial liabilities at fair value through profit or loss or other financial liabilities.

(a) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss consist of financial liabilities held for trading and those designated as at fair value through profit or loss on initial recognition. A financial liability is classified as held for trading if one of the following conditions is satisfied: (1) It has been acquired principally for the purpose of repurchasing in the near term; or (2) On initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and there is objective evidence that the Group has a recent actual pattern of short-term profit-taking; or (3) It is a derivative, except for a derivative that is a designated and effective hedging instrument, or a financial guarantee contract, or a derivative that is linked to and must be settled by delivery of an unquoted equity instrument (without a quoted price in an active market) whose fair value cannot be reliably measured.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.32 Accounting policies for financial instruments guidelines during the comparative period *(Continued)*

2.32.4 ***Financial liabilities/Equity instruments*** *(Continued)*

(a) Financial liabilities at fair value through profit or loss (Continued)

A financial liability may be designated as at fair value through profit or loss upon initial recognition only when one of the following conditions is satisfied: (1) Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise result from measuring liabilities or recognising the gains or losses on them on different bases; or (2) The financial liability forms part of a group of financial liabilities or a group of financial assets and financial liabilities, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is reported to key management personnel on that basis; or (3) It forms part of a contract containing one or more embedded derivatives, and IAS 39 – Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated at financial liabilities at fair value through profit or loss.

Financial liabilities at fair value through profit or loss are subsequently measured at fair value. Any gains or losses arising from changes in the fair value or any interest expenses related to the financial liabilities are recognised in profit or loss.

(b) Other financial liabilities

For a derivative liability that is linked to and must be settled by delivery of an unquoted equity instrument (without a quoted price in an active market) whose fair value cannot be reliably measured, it is subsequently measured at cost. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with gain or losses arising from derecognition or amortisation recognised in profit or loss.

(c) Derecognition of financial liabilities

The Group derecognises a financial liability or part of it only when the underlying present obligation or part of it is discharged, cancelled or expired. An agreement between the Group (an existing borrower) and an existing lender to replace the original financial liability with a new financial liability with substantially different terms is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

When the Group derecognises a financial liability or a part of it, it recognises the difference between the carrying amount of the financial liability derecognised and the consideration paid and payable (including any non-cash assets transferred or new financial liabilities assumed) in profit or loss.

(d) Determination of fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices. This includes listed equity securities and quoted debt instruments on major exchanges.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indications that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

For financial instruments not traded in active markets, fair value is determined using appropriate valuation techniques. Valuation techniques include the use of recent transaction prices, discounted cash flow analysis, option pricing models and others commonly used by market participants. These valuation techniques include the use of observable and/or unobservable inputs.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.32 Accounting policies for financial instruments guidelines during the comparative period *(Continued)*

2.32.4 *Financial liabilities/Equity instruments* *(Continued)*

(e) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

A financial instrument is an equity instrument if, and only if, both conditions (i) and (ii) below are met:

(i) The financial instrument includes no contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; and

(ii) If the financial instrument will or may be settled in the Group's own equity instruments, it is a non-derivative instrument that includes no contractual obligations for the Group to deliver a variable number of its own equity instruments; or a derivative that will be settled only by the Group exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

Equity instruments issued by the Group are recorded at the fair value of proceeds received, net of direct issuance expenses.

3 FINANCIAL RISK MANAGEMENT

Overview

The Group's activities expose it to a variety of financial risks and those activities involve analysis, evaluation, acceptance and management of a certain degree of risks or a portfolio of risks. The Group's aim is to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Group's financial performance.

The Group's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Group regularly reviews its risk management policies and systems to reflect changes in markets, products and the latest best practice.

The Board of Directors sets out strategies and risk preference for overall risk management strategy and decides the risk tolerance level. The senior management establishes related risk management policies and procedures under the strategy approved by the Board of Directors. The Subordinate Risk Management Department (Asset Preservation Department) at Head Office undertakes the leading risk management functions of the Group. The risk management division in each operation department at Head Office, the Risk Management Department of each domestic and overseas branch and subsidiary undertakes the specific risk management function. In addition, internal audit department is responsible for the independent review of risk management and the control environment.

The main types of financial risks of the Group are credit risk, liquidity risk, market risk, operational risk, etc. Market risk includes foreign exchange risk, interest rate risk and other price risk.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk

Credit risk is the risk of loss that a borrower or counterparty fails to or is unwilling to meet its obligations. Credit risk arises principally from loans and advances to customers, financial investments, derivative instruments and due from banks and other financial institutions. There is also credit risk in off-balance sheet items such as loan commitments, financial guarantees, acceptances and letters of credit. Credit risk is a major risk to which the Bank is exposed. Therefore, the Group manages and controls the overall credit risk in a prudent manner and reports regularly to the senior management and the Board of Directors of the Group.

3.1.1 Credit risk management

The Group's credit risk management is assumed by major functions such as Corporate Business Department, Inclusive Finance Department, Personal Finance Business Department, Credit Card Centre, Credit Authorisation Department and Risk Management Department, which are responsible for the standardised management of corporate and retail credit businesses in terms of credit investment, credit investigation and report, credit approval, loan granting, post-loan monitoring and NPL management.

(a) Loans and advances to customers and off-balance sheet commitments

As for corporate loans, the Group's relationship managers are responsible for receiving application files submitted by the applicants, conducting pre-loan investigation, assessing the credit risk suffered by applicants and relevant businesses, and completing initial internal rating. The Group adopts the hierarchical approval system at the branch and Head Office level based on the credit approval authority. Credit line is determined by taking into account the credit record, financial position, collaterals and guarantees of the applicant, overall credit risk of the credit portfolio, macroeconomic regulation and control policies and relevant laws and regulations. The Group keeps a close eye on the economic and financial trend and credit risk profile in the industry and provides more guidance on credit investment by formulating guidance for different industries. It strengthens daily risk pre-warning, monitoring and specific risk investigation to identify customers under major risks and material potential risk points. With improvements in post-loan management, the Group enhanced the refinement of post-loan management in a practical manner. The independent loan granting centre shall review the compliance, completeness and effectiveness of relevant credit files before loan granting according to the applications for drawdown of credit line. The Group's relationship manger is the person primarily responsible for post-loan management. The Group adopts a series of tools and approaches, such as risk filtering, list management, risk warning and risk investigation, in daily risk monitoring of corporate loans. To minimise the losses arising from credit risks, the Group manages NPLs mainly through (1) collection; (2) restructuring; (3) disposal of collaterals or recourse to the guarantor; (4) litigation or arbitration; and (5) write-off pursuant to regulations and requirements.

For retail credit assets, the Group grasps the overall risk profile of retail credit business through on-site review and adoption of reporting system on material matters, strengthens daily risk monitoring and pre-warning through optimising management system, standardises operation process of retail credit business through working out manuals for individual loans and small-enterprise loans, identifies and reveals material potential risks in a timely manner through strengthening risk monitoring and pre-warning, and understands and forecasts the quality trends so as to adopt targeted risk control measures in advance by using press testing and quality migration analysis. In addition, the Group continues to carry out fast response mechanism to address emergencies properly and applies list management to key risk projects through risk monitoring, guidance, collection and mitigation.

The Group adopts categorised management for retail credit assets on the basis of overdue ageing and guarantee mode. With regard to the retail credit customers without overdue loans, the Group will pay regular visit to strengthen management and include the customers with material potential risks in supervision list for specific management. With regard to retail credit customers with overdue loans, different approaches are adopted to collect such loans based on their overdue days. Retail credit businesses overdue by a certain period shall be managed as impaired assets and relevant impairment allowance shall be provided for such assets.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.1 ***Credit risk management*** *(Continued)*

(a) Loans and advances to customers and off-balance sheet commitments (Continued)

Credit Card Centre accounted for independently by the Group is in charge of the operation and management of credit card business. Credit Card Centre of the Group adopts various supervisory and preventive measures simultaneously. It reinforces data cross-validation to enhance risk prevention in the approval process, tightens credit line on high risk customers through secondary credit investigation to enter into the collection process earlier than scheduled, deploys collection strength in a proper manner to significantly enhance collection efficiency, and optimises data analytic system to further propel the refined management of credit card business.

(b) Treasury business

For treasury business (including debt investments), the Group chooses banks and other financial institutions prudently and balances the credit risk and return rate of investments. By making reference to internal and external credit rating information, the Group adopts hierarchical credit and uses an appropriate credit limit management system to review and adjust credit lines, aiming to manage the credit risk exposed to the treasury business.

For debt investments, internal and external ratings (such as Standard and Poor's) are used by the Group when available for managing the credit risk exposed to debt investments and bills. The investment in those debts and bills is to have better credit quality assets while maintaining readily available funding sources. The bond issuers involved with the Group are subject to the credit granting review and approval of the Head Office and credit limits are placed on such issuers.

Other financial assets classified as debt instruments at amortised cost include a fund trust scheme and an asset management plan set up by a banking financial institution. The Group implements a rating access system for cooperating trust companies, securities companies and fund companies, sets the credit limit for the repurchase party of trust income right and the final financier of the targeted asset management plan, and carries out follow-up risk management on a regular basis.

As for derivative instruments, the Group maintains strict limits on net open derivative investment positions (i.e., the difference between long and short contracts), by both amount and maturity. 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 where their fair value is positive), which, in relation to derivative instruments, is only a fraction of the contract's notional amount used to express the amount outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market fluctuations. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except when the Group requires margin deposits from counterparties. The management has set limits of these contracts according to counterparty, and regularly monitor and control the actual credit risk when the Group concludes foreign exchange and interest rate contracts with other financial institutions and clients.

The Group manages the credit quality of due from and placements with banks and other financial institutions, and balances arising from transactions for precious metals, by considering the size, financial position and the external credit rating of the banks and financial institutions. The Head Office monitors and reviews the credit risk of due from and placements with banks and other financial institutions by counterparties periodically. Limits are placed on different counterparties.

(c) Credit-related commitments

Credit risk exposures to financial guarantees are the same as that of loans. However, commercial letters of credit are usually pledged by the relevant shipped goods, and therefore is subject to lower risk compared with direct loans. Credit-related commitments are included in the management of overall credit line granted to the applicant. For customers with transactions beyond the credit limit or infrequent transactions, the applicant shall be requested to provide relevant guarantee in order to reduce credit risk exposures.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.1 *Credit risk management* *(Continued)*

(d) Credit risk quality

In accordance with the Guideline for Loan Credit Risk Classification issued by the China Banking and Insurance Regulatory Commission ("CBIRC"), the Group has established a loan credit risk classification system and performs credit risk management based on loan classification in one of five categories. The Group classifies loans into the following five categories: normal, special-mention, substandard, doubtful and loss, of which substandard, doubtful and loss loans are regarded as non-performing loans.

The five categories of loan classification into which the Group classifies its loans and advances to customers are set out below:

Normal:	Borrowers can honour the terms of their loans. There is no reason to doubt their ability to repay principal and interest in full on a timely basis.
Special-mention:	Borrowers are able to service their loans currently, although repayment may be adversely affected by specific factors.
Substandard:	Borrowers' ability to service their loans is in question and they cannot rely entirely on normal operating revenues to repay principal and interest. Losses may ensue even when collaterals or guarantees are invoked.
Doubtful:	Borrowers cannot repay principal and interest in full and significant losses will need to be recognised even when collaterals or guarantees are invoked.
Loss:	Only a small portion or none of the principal and interest can be recovered after taking all possible measures and exhausting all legal remedies.

(e) Credit risk measurement

The credit risk internal rating system includes three risk factors: (i) the "probability of default" by debtors (or debts); (ii) the "exposure at default" to be recognised by the Group based on the current exposure and the future potential development of debtors (or debts); (iii) the extent of loss from risk exposure in the event of default (the "loss given default").

Probability of default is the probability of occurrence of default event in a given period of time in future.

Exposure at default represents the total amount of on-balance sheet and off-balance sheet exposure at the time of default by debtor, reflecting the total amount of possible losses to be incurred. In general, this includes the utilised credit limit, interest receivable, the anticipated usage of unused credit facilities as well as the related expenses to be incurred.

Loss given default represents the percentage of amount of loss to be occurred in the event of default to the total risk exposure. It is expressed as the loss percentage per unit of exposure which typically varies by nature of debtor, type and seniority of claim and the availability of collaterals or other credit enhancements.

The Group summarised a series of financial and other related factors to build the internal credit rating model to measure the probability of default and the loss given default, which is based on historical data collection, data statistics and data analysis on the characteristics of risks of the clients/debts before the default occurs. Internal rating model applies the principle of regression to forecast the probability of default and the loss given default, and then matches the probability of default and the loss given default with relevant rank of default risk which is used for determination of the borrower's credit ranking within the internal rating system. In order to improve the model's accuracy and stability, the Group performs evaluation of the model at least every six months and monitors the results by performing back testing and comparing the results from model using the default/loss data from customers. In practice, the monitoring and back testing has been performed quarterly.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.1 Credit risk management *(Continued)*

(e) Credit risk measurement (Continued)

The above credit risk factors are considered for the measurement of possible credit losses to be incurred, and applied in the daily operations of the Group.

Credit risk grading

The Group uses internal credit risk gradings that reflect its assessment of the probability of default of individual counterparties. The Group use internal rating models tailored to the various categories of counterparty. Borrower and loan specific information collected at the time of application (such as disposable income, and level of collateral for retail exposures; and turnover and industry type for wholesale exposures) is fed into this rating model. This is supplemented with external data such as credit bureau scoring information on individual borrowers. In addition, the models enable expert judgement from the Credit Risk Officer to be fed into the final internal credit rating for each exposure. This allows for considerations which may not be captured as part of the other data inputs into the model.

3.1.2 Expected Credit losses

The Group measures the expected credit losses of financial instruments measured at amortised cost or fair value through other comprehensive income.

The Group divides them into 3 stages. Stage 1 is "not credit-impaired on initial recognition", at which the Group only needs to measure the expected credit losses ("ECL") in next 12 months. Stage 2 is "financial assets with significant increase in credit risk" and Stage 3 is "credit-impaired financial assets", at both of which the Group needs to measure lifetime ECL.

The Group has developed impairment models as to calculate ECL. The Group has established regression models through a top down approach to analyse the linkage between risk parameters and macro-economic indicators including national account, price index, foreign trade, fixed asset investment, money supply, and interest and measures ECLs under the above multiple scenarios through impairment models.

Stage classification

A significant increase in credit risk

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:

(1) Principal or interest is more than 30 days past due;

(2) Credit rating of obligor changes significantly. Credit rating is based on the Group's internal rating results, and a significant increase in credit risk is determined when internal rating during the reporting period is below the Group's credit access standard or significant downgrading occurs as compared with initially recognized internal rating, such as low risk financial instruments are downgraded by 3 to 6 grades, medium risk financial instruments are downgraded 1 to 4 grades, and high risk financial instruments are downgraded by 1 grade;

(3) Key financial indicators of obligor deteriorate;

(4) Significant adverse issuers have negative impacts on obligator's repayment ability;

(5) Other risk alarm indicators imply growing potential risk, and could cause losses of financial assets to the Group.

The Group has also conducted Sensitivity Test regarding the significant increase in credit risk. As at December 31 2018, given that credit risk had no significant change after initial recognition, resulting in the financial instruments downgraded to stage 2 within the current year had moved back to stage 1, the decrease of expected credit losses recognized in Financial Position does not exceed 5.5% of the loan loss provision.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.2 Expected Risk Losses *(Continued)*

Stage classification (Continued)

Default and Credit-impaired

When financial instruments are credit-impaired, the Group defines them as in default, in general, the financial instruments that are more than 90 days past due are identified as in default.

The Group considers a financial instrument to be credit-impaired when one or more of the following criteria have been met:

(1) Principal (including advances, applies to below) or interest is more than 90 days past due;

(2) Issuer or obligor is in significant financial difficulty, or has already been insolvent;

(3) It is becoming probable that the borrower will enter bankruptcy;

(4) An active market for that financial asset has disappeared because of financial difficulties of issuers;

(5) Other objective evidence indicating impairment of the financial asset.

The financial assets are moveable between stages. For instance, financial instruments originally classified at stage 1 should be downgraded to stage 2 if events occur such as a significant increase in credit risk. Financial instruments at stage 2 could be upgraded to stage 1 if credit risk decreases and the criteria for the determination of “a significant increase in credit risk” are no longer met.

Establishment of impairment model

The Group has established macro-economic conductive forecast model driven by Gross Domestic Product growth rate to periodically forecast macro-economic indicators in multiple categories including national account, price index, foreign trade, fixed asset investment, money supply, and interest under three economic scenarios (i.e., Optimistic scenario, Basic scenario, and Pessimistic scenario). The forecasts, after evaluation and confirmation by economic experts of the Bank, are used in the assets impairment model. Basic scenario is defined as the most probable situation, which will become benchmark for other scenarios. Optimistic and pessimistic scenarios are possible scenarios which are better or worse than basic scenario respectively, and can also become a source of sensitivity test.

The impairment models are under a top down approach through grouping of models. The models cover the risk exposures of financial institutions, companies and retailers and reveal the regressive relationship between different macro-economic indicators (such as national account, price index, foreign trade, fixed asset investment, money supply, and interest) and risk parameters. The result of macro-economic indicators forecasts will form the basis for impairment calculation and represent “forward looking” elements of credit risk allowance in different scenarios.

Where impairment models cannot be established due to unavailability of data support, the Group endeavours to select appropriate methods in order to make prospective estimation. Firstly, the Group makes prospective adjustments to impairment calculation of overseas branches regularly based on macro-forecast data from authoritative institutions (such as IMF and the World Bank). For asset portfolios not covered by impairment models, expected loss rate is set by referring to that of similar asset portfolios with impairment models established.

Management also overlays adjustments to asset portfolios whose non-linear risk characteristics cannot be adequately reflected through impairment models, such as group assets with risk infectivity and proper disposition of corporate debt cutting overcapacity. These adjustments do not have a significant effect on net profit in current year.

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.2 Expected Risk Losses *(Continued)*

Establishment of impairment model (Continued)

Grouping of instruments with similar risk characteristics

To calculate the relevance between expected credit loss provisions modelled on a collective basis and macro-economic indicators, a grouping of exposure is performed on the basis of shared risk characteristics, such that risk exposures within a group are homogenous. In performing this grouping, there must be sufficient information for the Group to be statistically credible. Where sufficient information is not available internally, the Group has considered benchmarking internal/external supplementary data to use for modelling purposes. The characteristics and any supplementary data used to determine groupings are outlined below:

Corporate loans and financial investments

- Industry
- Guarantee mode

Retail loans

- Type of loans (such as mortgage, consumer loans, and credit cards)
- Method of repayments
- Interval of credit quota usage rate
- Interval of collateral rate (loan balance/collateral value)

Economic scenarios and weightings

The significant assumptions used to estimate expected credit losses are presented as three economic scenarios, including “Optimistic scenario”, “Basic scenario”, and “Pessimistic scenario”, which are applicable to all groups. The weighting of “Basic scenario” adopted by the Group overweights the aggregated weightings of non-“Basic scenario”.

Sensitivity tests

As at December 31, 2018, the probability-weighted impairment allowance increased by the following amount compared with basic scenario impairment allowance:

	As at 31 December 2018
Corporate Loans	277
Individual Loans	88
Financial Investments	1

If the Optimistic and Pessimistic scenario weights are arised 10%, the impairment allowance of loans and advances will increase 304 million, and the impairment allowance of financial investment will increase 2 million.

3.1.3Maximum exposure to credit risk

3.1.3.1Maximum exposure to credit risk – financial instruments included in impairment assessment

The Group categorizes asset risk characteristics based on the quality of the assets, differentiating financial instruments included in expected credit losses calculation as “Low risk”, “Medium risk”, “High risk” and “Impaired”. “Low risk” refers to counterparty with strong repayment ability, low probability of impairment in the future, and minor effect of adverse external factors; “Medium risk” refers to counterparty with certain repayment ability, but continuously unstable and worsening business, finance, and economic conditions will potentially cause its repayment ability to descend; “High risk” refers to counterparty with existence of adverse factors having significant effect on repayment ability or high probability of impairment in the future; and “Impaired” refers to the assets met the Group’s definition of credit-impaired.

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.3 Maximum exposure to credit risk *(Continued)*

3.1.3.1 Maximum exposure to credit risk – financial instruments included in impairment assessment (Continued)

The table below analyses exposure to credit risk of financial instruments included in expected credit losses assessment. The balance of financial instruments below is the maximum exposure to credit risk of these instruments in the Group.

As at 31 December 2018	Low risk	Medium risk	High risk	Impaired	Domestic branches	Overseas and subsidiaries	Group total	Allowance	Group carrying amount	As at 31 December 2017 Group carrying amount
On-balance sheet item										
Cash and balances with central banks (Stage 1)	788,578	-	-	-	788,578	36,928	825,506	-	825,506	921,948
Loans and advances to customers (Corporate)										
−at amortised cost	1,564,859	795,780	99,424	54,097	2,514,160	519,763	3,033,923	(102,403)	2,931,520	3,082,206
Stage 1	1,564,318	769,859	2,895	–	2,337,072	511,884	2,848,956	(23,323)	2,825,633	
Stage 2	541	25,921	96,529	–	122,991	4,829	127,820	(42,503)	85,317	
Stage 3	–	–	–	54,097	54,097	3,050	57,147	(36,577)	20,570	
−FVOCI	77,049	95,053	13,310	258	185,670	193	185,863	(1,679)	184,184	N.A.
Stage 1	77,049	93,312	8,320	–	178,681	193	178,874	(1,163)	177,711	
Stage 2	–	1,741	4,990	–	6,731	–	6,731	(283)	6,448	
Stage 3	–	–	–	258	258	–	258	(283)	25	
Loans and advances to customers (Individuals)										
−at amortised cost	1,122,016	442,840	22,873	15,126	1,602,855	32,772	1,635,627	(21,458)	1,614,169	1,391,049
Stage 1	1,121,826	442,131	15,987	–	1,579,944	32,471	1,612,415	(7,710)	1,604,705	
Stage 2	190	709	6,886	–	7,785	87	7,872	(2,302)	5,570	
Stage 3	–	–	–	15,126	15,126	214	15,340	(11,446)	3,894	
Due from banks and other financial institutions (Stage 1)	525,378	79,241	–	–	604,619	245,202	849,821	(1,754)	848,067	782,468
Financial investments – debt instruments at amortised cost	1,916,918	45,663	–	1,085	1,963,666	40,208	2,003,874	(3,369)	2,000,505	N.A.
Stage 1	1,916,918	45,663	–	–	1,962,581	40,208	2,002,789	(2,884)	1,999,905	
Stage 2	–	–	–	–	–		–	–	–	
Stage 3	–	–	–	1,085	1,085	–	1,085	(485)	600	
Financial investments – loans and receivables									N.A.	387,733
Financial investments – held-to-maturity									N.A.	1,511,375
Financial investments – fair value through other comprehensive income	95,469	1,921	–	467	97,857	340,958	438,815	(1,185)	437,630	N.A.
Stage 1	95,469	1,921	–	–	97,390	340,958	438,348	(718)	437,630	
Stage 2	–	–	–	–	–		–		–	
Stage 3	–	–	–	467	467	–	467	(467)	–	

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.3 Maximum exposure to credit risk *(Continued)*

3.1.3.1 Maximum exposure to credit risk – financial instruments included in impairment assessment

As at 31 December 2018	Low risk	Medium risk	High risk	Impaired	Domestic branches	Overseas and subsidiaries	Group total	Allowance	Group carrying amount	As at 31 December 2017 Group carrying amount
Financial investments – available-for-sale									N.A.	393,748
Other financial assets – amortised cost	1	13,259	188	1,265	14,713	13,479	28,192	(2,354)	25,838	96,726
Stage 1	–	13,252	–	–	13,252	13,479	26,731	(1,480)	25,251	
Stage 2	1	7	188	–	196	–	196	(65)	131	
Stage 3	–	–	–	1,265	1,265	–	1,265	(809)	456	
On-balance sheet total	6,090,268	1,473,757	135,795	72,298	7,772,118	1,229,503	9,001,621	(134,202)	8,867,419	8,567,253
Financial guarantees and credit related commitments										
Stage 1	1,060,191	306,885	1,115	–	1,368,191	83,375	1,451,566	(4,742)	1,446,824	
Stage 2	–	1,729	2,655	–	4,384	268	4,652	(339)	4,313	
Off-balance sheet total	1,060,191	308,614	3,770	–	1,372,575	83,643	1,456,218	(5,081)	1,451,137	1,412,703
Total	7,150,459	1,782,371	139,565	72,298	9,144,693	1,313,146	10,457,839	(139,283)	10,318,556	9,979,956

3.1.3.2 Maximum exposure to credit risk – financial instruments not included in impairment assessment

The analysis of credit risk exposure of those financial assets which are not included in the impairment evaluation, financial assets at FVPL, is as follows:

		Maximum exposure to credit risk
	As at 31 December 2018	As at 31 December 2017
Financial assets at fair value through profit or loss		
Loans and advances to customers	**494**	–
Derivative financial instruments	**30,730**	34,007
Debt securities	**132,875**	88,930
Fund investment and other asset management scheme	**187,554**	83,872
Precious metal contracts	**37,232**	41,198
Loans to banks and other financial institutions	**8,393**	12,730
Total	**397,278**	260,737

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.3 ***Maximum exposure to credit risk*** *(Continued)*

3.1.3.3 *Collaterals and other credit enhancements*

The Group manages, limits and controls concentrations of credit risk wherever they are identified, in particular, to individual counterparties, company and groups, industry segments and geographical regions.

The Group structures the levels of credit risk it undertakes by placing limits in relation to one borrower, or group of borrowers. Such risks are monitored on a regular basis and subject to annual or more frequent review, whenever necessary.

The exposure to any single borrower including banks and brokers is further restricted by sub-limits covering on-balance and off-balance sheet exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing their lending limits where appropriate.

Some other specific control and risk mitigation measures are outlined below:

(a) Collaterals

The Group employs a range of policies and practices to mitigate credit risk. The most useful practice is to accept collaterals. The Group implements guidelines on the acceptability of specific classes of collaterals. The principal types of collaterals for loans and advances to customers are:

- Residential properties;

- Business assets such as premises, inventory and receivables;

- Financial instruments such as debt securities and stocks.

The value of collaterals at the time of loan origination is determined by the Credit Authorisation Department and the amount of the loans granted is subject to loan-to-value ratio limits based on collateral types. The principal types of collaterals for corporate loans and individual loans are as follows:

Collaterals	**Maximum loan-to-value ratio**
Cash deposits with the Group	90%
PRC treasury bonds	90%
Financial institution bonds	90%
Publicly traded stocks	60%
Rights to collect fees or right of management	60%
Properties	70%
Land use rights	70%
Vehicles	50%

Long-term loans and advances to corporate and individual customers are generally secured; while revolving individual credit facilities are generally unsecured. In addition, in order to minimise the credit loss the Group will seek additional collaterals from the counterparties as soon as impairment indicators are noted for the relevant individual loans and advances.

For loans guaranteed by a third-party guarantor, the Group will assess the financial condition, credit history and ability to meet obligations of the guarantor.

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.3 Maximum exposure to credit risk *(Continued)*

3.1.3.3 Collaterals and other credit enhancements *(Continued)*

(a) Collaterals *(Continued)*

Collaterals held as security for financial assets other than loans and advances to customers are determined by the nature of the instrument. Debt securities, treasury bonds and PBOC bills are generally unsecured, with the exception of asset-backed securities, which are secured by portfolios of financial instruments.

The Group closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that the Group will take possession of collateral to mitigate potential credit losses. Financial assets that are credit-impaired and related collateral held in order to mitigate potential losses are shown below:

	Gross exposure	Impairment allowance	Carrying amount	Fair value of collateral held
Credit-impaired assets				
Loans and advances to customers				
Loans to corporate entities	57,172	(36,577)	20,595	17,484
Loans to individuals	15,340	(11,446)	3,894	10,865
Financial investments	1,552	(925)	600	1,041

(b) 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 an offset 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 counterparty 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 each transaction subject to the arrangement affects credit risk.

3.1.4 Derivative instruments

The Group undertakes its transactions in foreign exchange, commodity and interest rate derivative contracts and others with other financial institutions and customers. The management has established limits for these contracts based on counterparties, industry sectors and countries. Actual credit exposures and limits are regularly monitored and controlled by management.

Credit risk-weighted amounts

	As at 31 December 2018	As at 31 December 2017
Counterparty credit risk-weighted amount	**26,895**	26,223

The credit risk-weighted amounts are the amounts calculated with reference to the guidelines issued by the CBIRC and are dependent on, amongst other factors, the creditworthiness of the counterparty and the maturity characteristics of each type of contract.

The credit risk-weighted amounts stated above have not taken the effects of netting arrangements into account.

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.5 Loans and advances to customers

	As at 31 December 2017	
	Loans and advances to customers	Due from banks and other financial institutions
Neither past due nor impaired	4,477,651	782,468
Past due but not impaired	33,099	–
Impaired	68,506	–
Gross	4,579,256	782,468
Less: Allowances for impairment losses	(106,001)	–
Net	4,473,255	782,468

Further information of the impairment allowances for loans and advances to customers is provided in Note 19.

As at 31 December 2018, the Group's total loans and advances to customers increased by 6.00% as a result of the continuous increase of market demand in Mainland China. When entering into a new market or new industry, the Group targets at large enterprises or other financial institutions with good credit ratings or customers with sufficient collaterals in order to minimise the potential risk of increased credit risk exposure.

(a) Loans and advances neither past due nor impaired

	As at 31 December 2017		
	Normal	Special-mention	Total
Corporate loans and advances	2,992,212	101,351	3,093,563
Individual loans and advances	1,383,815	273	1,384,088
Total	4,376,027	101,624	4,477,651

(b) Loans and advances past due but not impaired

Gross amount of loans and advances by types of customers that are past due but not impaired are as follows:

	As at 31 December 2017					
	Past due up to 30 days	Past due 31-60 days	Past due 61-90 days	Past due over 90 days	Total	Fair value of collaterals
Corporate entities						
– Commercial loans	8,388	2,507	1,621	10,687	23,203	15,276
Individuals						
– Mortgages	1,782	512	264	–	2,558	4,207
– Credit Cards	4,732	1,124	650	–	6,506	–
– Others	351	156	197	128	832	1,160
Total	15,253	4,299	2,732	10,815	33,099	20,643
Due from banks and other financial institutions	–	–	–	–	–	–

The fair value of collaterals was estimated by management based on the latest available external valuations, adjusted for the current market situation and management's experience in realisation of collaterals.

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.5 Loans and advances to customers

(c) Loans and advances individually impaired

As at 31 December 2018, impaired loans and advances to customers before taking into consideration the collaterals held is RMB72,512 million (31 December 2017: RMB68,506 million).

The breakdown of the gross amount of impaired loans and advances to customers by class, along with the fair value of related collaterals held by the Group as security, are as follows:

	As at 31 December 2017
Impaired loans and advances to customers	
Corporate entities	52,608
Individuals	15,898
Total	68,506
Fair value of collaterals	
Corporate entities	15,175
Individuals	11,356
Total	26,531

3.1.6 Foreclosed assets

	As at 31 December 2018	As at 31 December 2017
Buildings	**913**	991
Land use rights	**20**	25
Others	**19**	19
Gross	**952**	1,035
Less: Impairment allowances	**(128)**	(129)
Net	**824**	906

Foreclosed assets are sold as soon as practicable with the proceeds used to reduce the outstanding indebtedness. The Group does not generally occupy foreclosed assets for its own business use. Foreclosed assets are classified as other assets in the statement of financial position.

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.7 Concentration risk analysis for financial assets with credit risk exposure

The Group mainly manages concentration risk for loans and advances to customers by industry sectors and also manages concentration risk for financial assets by geographical sectors.

Geographical sectors

	Mainland China	Hong Kong	Others	Total
As at 31 December 2018				
Financial assets				
Balances with central banks	**790,382**	**2,548**	**32,576**	**825,506**
Due from banks and other financial institutions	**689,611**	**69,231**	**89,225**	**848,067**
Derivative financial assets	**22,541**	**5,646**	**2,543**	**30,730**
Financial investments – Financial assets at fair value through profit or loss	**333,693**	**7,726**	**24,635**	**366,054**
Loans and advances to customers	**4,385,888**	**190,464**	**166,020**	**4,742,372**
Financial investments – debt instruments at fair value through other comprehensive income	**110,740**	**80,452**	**246,438**	**437,630**
Financial investments – debt instruments at amortised cost	**1,962,108**	**4,154**	**34,243**	**2,000,505**
Other financial assets	**24,945**	**10,491**	**4,481**	**39,917**
	8,319,908	**370,712**	**600,161**	**9,290,781**
Off-balance sheet exposures				
Guarantees, acceptances and letters of credit	**605,869**	**11,595**	**20,320**	**637,784**
Other credit related commitments	**766,769**	**36,213**	**15,452**	**818,434**
	1,372,638	**47,808**	**35,772**	**1,456,218**

	Mainland China	Hong Kong	Others	Total
As at 31 December 2017				
Financial assets				
Balances with central banks	893,353	1,805	26,790	921,948
Due from banks and other financial institutions	655,483	50,801	76,184	782,468
Derivative financial assets	25,165	7,590	1,252	34,007
Financial investments – Financial assets at fair value through profit or loss	206,296	3,923	16,511	226,730
Loans and advances to customers	4,051,431	214,933	206,891	4,473,255
Financial investments – loans and receivables	386,505	–	1,228	387,733
Financial investments – available-for-sale (debt securities)	157,306	51,804	184,638	393,748
Financial investments – held-to-maturity	1,497,147	584	13,644	1,511,375
Other financial assets	200,078	8,515	6,889	215,482
	8,072,764	339,955	534,027	8,946,746
Off-balance sheet exposures				
Guarantees, acceptances and letters of credit	563,090	10,504	26,792	600,386
Other credit related commitments	765,071	21,140	26,106	812,317
	1,328,161	31,644	52,898	1,412,703

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.7 Concentration risk analysis for financial assets with credit risk exposure *(Continued)*

(a) Geographical risk concentration for loans and advances to customers

	As at 31 December 2018		As at 31 December 2017	
		%		%
North of China (1)	**619,891**	**12.77**	588,224	12.85
Northeast (2)	**205,989**	**4.24**	207,142	4.52
East of China (3)	**2,250,486**	**46.36**	2,059,334	44.97
South and middle of China (4)	**941,511**	**19.40**	851,780	18.60
West of China (5)	**480,670**	**9.90**	447,924	9.78
Overseas (6)	**355,681**	**7.33**	424,852	9.28
Gross amount of loans and advances	**4,854,228**	**100.00**	4,579,256	100.00

Note:

(1) Including Beijing, Tianjin, Hebei province, Shanxi province and Inner Mongolia Autonomous Region.

(2) Including Liaoning province, Jilin province and Heilongjiang province.

(3) Including Shanghai, Jiangsu province, Zhejiang province, Anhui province, Fujian province, Jiangxi province and Shandong province.

(4) Including Henan province, Hunan province, Hubei province, Guangdong province, Guangxi Autonomous Region and Hainan province.

(5) Including Chongqing, Sichuan province, Guizhou province, Yunnan province, Shaanxi province, Gansu province, Qinghai province, Xinjiang Autonomous Region and Ningxia Autonomous Region.

(6) Including Hong Kong, New York, Tokyo, Singapore, Seoul, Frankfurt, Macau, Ho Chi Minh City, Sydney, United Kingdom, San Francisco, Luxembourg, Taipei, Toronto, Brisbane, Paris, Rome, Brazil and Melbourne.

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.7 Concentration risk analysis for financial assets with credit risk exposure (Continued)

(b) Industry analysis

	As at 31 December 2018		As at 31 December 2017	
		%		%
Corporate loans				
Mining	**119,091**	**2.45**	114,010	2.49
Manufacturing				
– Petroleum and chemical	***104,806***	***2.16***	*110,087*	*2.40*
– Electronics	***95,858***	***1.97***	*76,261*	*1.67*
– Steel	***33,241***	***0.68***	*36,377*	*0.79*
– Machinery	***93,828***	***1.93***	*96,532*	*2.11*
– Textile and clothing	***29,146***	***0.60***	*30,043*	*0.66*
– Other manufacturing	***224,533***	***4.64***	*231,606*	*5.06*
Electricity, gas and water production and supply	**186,117**	**3.83**	180,471	3.94
Construction	**114,577**	**2.36**	112,544	2.46
Transportation, storage and postal service	**573,151**	**11.82**	576,156	12.58
Telecommunication, computer service and software	**28,682**	**0.59**	26,229	0.57
Wholesale and retail	**246,706**	**5.08**	283,654	6.19
Accommodation and catering	**34,486**	**0.71**	35,531	0.78
Financial institutions	**98,342**	**2.03**	118,533	2.59
Real estate	**216,536**	**4.46**	189,295	4.13
Services	**413,716**	**8.52**	358,956	7.84
Water conservancy, environmental and other public services	**263,235**	**5.42**	265,073	5.79
Education, science, culture and public health	**89,436**	**1.84**	82,780	1.81
Others	**96,428**	**1.99**	106,278	2.32
Discounted bills	**156,686**	**3.23**	138,958	3.03
Total corporate loans	**3,218,601**	**66.31**	3,169,374	69.21
Individual loans				
Mortgages	**1,007,528**	**20.75**	897,264	19.60
Credit cards	**505,190**	**10.41**	399,004	8.71
Others	**122,909**	**2.53**	113,614	2.48
Total individual loans	**1,635,627**	**33.69**	1,409,882	30.79
Gross amount of loans and advances before impairment allowances	**4,854,228**	**100.00**	4,579,256	100.00

The industry risk concentration analysis for loans and advances to customers is based on the type of industry of the borrowers.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk

3.2.1 Overview

The Group takes on exposure to market risks, which is initiated by the fluctuation of the fair value of or future cash flow of financial instruments as a result of the changes of the market prices. Market risks arise from open positions in interest rates, currencies, commodities and equity products, all of which are exposed to market fluctuations and changes in interest rates, foreign exchange rates, commodities and equity products.

In accordance with the requirements of the CBIRC, the Group's financial instrument positions are divided into trading account and banking account. The trading account consists of positions in financial instruments held either for trading intent or economic hedging for other elements of the trading account. The banking account consists of the investments purchased by the Group with excess funds and other financial instruments that are not captured in the trading account.

The Group established a management model of "large and small middle offices" for its market risk management, which is a centralised control framework led by Board of Directors, Supervisors and senior management. The Assets and Liabilities Management Department takes the lead in the Group's market risk management, while business units such as financial markets department, precious metals trading centre, domestic and overseas branches and subsidiaries are the execution units of the Bank's market risk management. The risk management department and the internal audit department are responsible for the independent verification of the market risk management system, as well as the internal audit of the Bank.

The Group monitors market risk separately in respect of trading portfolios and non-trading portfolios. With regard to the exchange rate risks and the interest rate risks of trading book, the Group established an effective limit management system by implementing Net Position, Risk Sensitivity, Value at Risk ("VaR") and other indicators. Net interest income sensitivity analysis, interest rate repricing gap analysis and foreign exchange risk concentration analysis are the major tools used by the Group to monitor the market risk of its overall businesses. In addition, through adequate pricing management and asset allocation, the Group strived to maximise its rate of return while keeping its risks under control.

The Group has continuously improved the management system of market risk. The Group conducted stress tests on historical scenarios and hypothetical scenarios in the consideration of the Group's major market risk factors. The Group has realised daily automatic collection of trading data and market data in the system. The Group conducted the management of risk capital and VaR quota, and formulated the quota allocation plans.

As part of market risk management, the Group enters into interest rate swaps to match the interest rate risk associated with the structured deposits and fixed-rate long-term debt securities.

The major measurement techniques used to measure and control market risk are outlined below:

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.2 *VaR*

VaR refers to the maximum loss that an investment portfolio may incur at a given confidence level and holding period caused by the changes in market price factors such as interest rates and exchange rates etc. The Group adopted the historical simulation method to calculate daily VaR (99% confidence interval, the holding period of one day).

A summary of VaR by risk type of the Group's portfolios is as follows:

Items

	31 December 2018	Year ended 31 December 2018		
		Average	**Maximum**	**Minimum**
VaR	**586**	**556**	**690**	**467**
– Interest rate risk	**176**	**159**	**218**	**68**
– Foreign exchange risk	**625**	**538**	**701**	**442**

Items

	31 December 2017	Year ended 31 December 2017		
		Average	Maximum	Minimum
VaR	570	551	811	348
– Interest rate risk	183	153	192	89
– Foreign exchange risk	511	522	858	288

3.2.3 *Sensitivity tests*

Interest rate sensitivity test

The Group performs interest rate sensitivity analysis on net profits and other comprehensive income for the Group by measuring the impact of a change in net profits of financial assets and liabilities, not taking customer behaviour and repayment option into consideration. The Group calculates the impact of a parallel shift of 100 basis points interest rates on the net profits and other comprehensive income for the year on a monthly basis.

The table below illustrates the impact to net profit of the coming year of the Group based on the structure of interest bearing assets and liabilities as at 31 December 2018 and 31 December 2017, caused by a parallel shift of 100 basis points of RMB, USD and HKD interest rates.

	Expected changes in net profit	
	As at 31 December 2018	As at 31 December 2017
+100 basis points parallel shift in yield curves	**14,029**	13,747
-100 basis points parallel shift in yield curves	**(14,029)**	(13,747)

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.3 Sensitivity tests *(Continued)*

Interest rate sensitivity test (Continued)

The table below illustrates the impact on other comprehensive income of the coming year of the Group based on the structure of interest bearing assets and liabilities as at 31 December 2018 and 31 December 2017, caused by a parallel shift of 100 basis points in RMB, USD and HKD interest rates.

	Changes in other comprehensive income	
	As at 31 December 2018	As at 31 December 2017
+100 basis points parallel shift in yield curves	**(5,572)**	(6,414)
-100 basis points parallel shift in yield curves	**5,740**	6,800

The results of the interest rate sensitivity tests set out in the table above are illustrative only and are based on simplified scenarios. The figures represent the projected impact to the net profit and other comprehensive income caused by the projected movement of current interest risk structure yield curves. This effect, however, does not take into account actions that would be taken by the Group to mitigate the impact of interest rate changes. The projections above also assume that interest rates of all maturities excluding demand deposits move by the same amount and, therefore, do not reflect the potential impact on net profit due to changes in certain rates while others remain unchanged. The projections make other simplifying assumptions as well, including that all positions are to be held to maturity. There will be changes to the projection if positions are not held to maturity but it is not expected that the changes would be material.

Foreign exchange sensitivity test

The Group performs exchange rate sensitivity analysis on net profit and other comprehensive income for the Group by measuring the impact of a change in exchange rate on financial assets and liabilities denominated in different currencies. On an assumption of an appreciation or depreciation of RMB spot and forward rates against HKD and USD by 5%, the Group calculates the changes in net profit and other comprehensive income for the year on a monthly basis.

The table below illustrates the impact of an appreciation or depreciation of RMB spot and forward rates against HKD and USD by 5% on the Group's net profit:

	Expected changes in net profit/(loss)	
	Year ended 31 December 2018	Year ended 31 December 2017
5% appreciation of RMB	**(1,755)**	(4,187)
5% depreciation of RMB	**1,755**	4,187

The table below illustrates the impact of an appreciation or depreciation of RMB spot and forward rate against HKD and USD by 5% on the Group's other comprehensive income:

	Changes in other comprehensive income	
	As at 31 December 2018	As at 31 December 2017
5% appreciation of RMB	**(891)**	(684)
5% depreciation of RMB	**891**	684

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.4 Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the market value of a financial instrument will fluctuate because of changes in market interest rates.

The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows.

The Group operates its business predominantly in PRC under the interest rate scheme regulated by the PBOC. The PBOC established RMB benchmark interest rates for loans with a floor and such policy was eliminated with effect from 20 July 2013 whereby financial institutions are in a position to price their loans based on commercial and market factors. Since 24 October 2015, the PBOC has cancelled the upper limit of floating of benchmark interest rate for deposit. The Group conducts most of its domestic businesses including loans and deposits as well as the majority of financial guarantees and credit commitments based upon the published PBOC basic interest rates. Consequently, the Group is less vulnerable to interest rate risk. However, there is no guarantee that the PBOC will continue this practice in the future.

The interest rate repricing risk for foreign currency denominated debt securities and the remaining part of the financial guarantees and credit commitments businesses which are not based upon these basic interest rates is not expected to be significant.

Pricing of discounted bills are highly market-oriented. In the case of tight credit markets, such interest rate may be higher than that of loans with the same term.

The tables below summarise the Group's exposures to interest rate risks. The tables show the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.4 *Interest rate risk* *(Continued)*

	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Non-interest bearing	Total
As at 31 December 2018							
Assets							
Cash and balances with central banks	815,408	–	–	–	–	24,763	840,171
Due from banks and other financial institutions	421,426	65,741	203,758	143,923	5,463	7,756	848,067
Derivative financial assets	–	–	–	–	–	30,730	30,730
Financial investments – financial assets at fair value through profit or loss	27,857	18,051	48,317	43,896	33,166	205,099	376,386
Loans and advances to customers	2,211,528	521,424	1,544,308	101,108	64,324	299,680	4,742,372
Financial investments – debt instruments at fair value through other comprehensive income	50,183	123,857	80,836	125,220	53,657	3,877	437,630
Financial investments – equity investments at fair value through other comprehensive income	–	–	–	–	–	7,388	7,388
Financial investments – debt instruments at amortised cost	41,240	59,505	210,740	1,165,477	494,443	29,100	2,000,505
Other assets	425	–	–	–	–	247,497	247,922
Total assets	3,568,067	788,578	2,087,959	1,579,624	651,053	855,890	9,531,171
Liabilities							
Due to banks and other financial institutions	(776,575)	(325,116)	(955,468)	(46,009)	(26,521)	(32,604)	(2,162,293)
Financial liabilities at fair value through profit or loss	(2,968)	(5,760)	(5,948)	(7,401)	–	(1,032)	(23,109)
Derivative financial liabilities	–	–	–	–	–	(28,105)	(28,105)
Due to customers	(2,970,102)	(391,142)	(1,609,799)	(661,237)	(75,540)	(85,504)	(5,793,324)
Other liabilities	(44,739)	(108,504)	(233,212)	(185,771)	(141,087)	(105,719)	(819,032)
Total liabilities	(3,794,384)	(830,522)	(2,804,427)	(900,418)	(243,148)	(252,964)	(8,825,863)
Total interest sensitivity gap	(226,317)	(41,944)	(716,468)	679,206	407,905	602,926	705,308

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.4 Interest rate risk *(Continued)*

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
As at 31 December 2017							
Assets							
Cash and balances with central banks	914,394	–	152	–	–	24,025	938,571
Due from banks and other financial institutions	433,536	81,883	234,917	32,132	–	–	782,468
Derivative financial assets	–	–	–	–	–	34,007	34,007
Financial assets at fair value through profit or loss	23,855	21,209	51,997	33,603	6,957	89,409	227,030
Loans and advances to customers	2,029,682	494,381	1,482,830	186,508	61,251	218,603	4,473,255
Financial investments – loans and receivables	5,874	6,854	57,157	204,902	112,946	–	387,733
Financial investments – available-for-sale	46,534	77,320	42,020	165,901	61,973	8,390	402,138
Financial investments – held-to-maturity	33,531	47,583	137,104	876,824	416,333	–	1,511,375
Other assets	7,073	–	–	–	–	274,604	281,677
Total assets	3,494,479	729,230	2,006,177	1,499,870	659,460	649,038	9,038,254
Liabilities							
Due to banks and other financial institutions	(829,995)	(543,334)	(706,377)	(10,870)	(15,616)	–	(2,106,192)
Derivative financial liabilities	–	–	–	–	–	(33,344)	(33,344)
Financial liabilities at fair value through profit or loss	(7,174)	(9,685)	(5,148)	(4,371)	–	(586)	(26,964)
Due to customers	(3,173,681)	(569,972)	(929,120)	(838,174)	(9,897)	(24,522)	(5,545,366)
Other liabilities	(28,964)	(46,373)	(88,693)	(166,847)	(139,935)	(179,305)	(650,117)
Total liabilities	(4,039,814)	(1,169,364)	(1,729,338)	(1,020,262)	(165,448)	(237,757)	(8,361,983)
Total interest sensitivity gap	(545,335)	(440,134)	276,839	479,608	494,012	411,281	676,271

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.5 Foreign exchange risk

The Group conducts the majority of its businesses in RMB, with certain foreign transactions in USD, HKD and other currencies. The Group takes on exposure to the effects of fluctuations in the prevailing foreign exchange rates and changes on its financial position and cash flows. The senior management sets limits on the level of exposure in exchange rate risk and monitors the exposure regularly. As at 31 December 2018, the exchange rates for US dollar and HK dollar are 1 US dollar to RMB6.8632 (31 December 2017: RMB6.5342) and 1 HK dollar to RMB0.8762 (31 December 2017: RMB0.83591). The tables below summarise the Group's exposure to foreign exchange risk at the end of the year. The tables show the Group's total assets and liabilities in carrying amounts in RMB, are categorised by the original currency.

	RMB	USD (RMB Equivalent)	HKD (RMB Equivalent)	Others (RMB Equivalent)	Total
As at 31 December 2018					
Assets					
Cash and balances with central banks	784,959	30,993	3,390	20,829	840,171
Due from banks and other financial institutions	488,242	334,579	13,180	12,066	848,067
Derivative financial assets	25,102	1,738	3,344	546	30,730
Financial investments – financial assets at fair value through profit or loss	328,378	29,449	759	17,800	376,386
Loans and advances to customers	4,245,922	297,273	138,325	60,852	4,742,372
Financial investments – debt instruments at fair value through other comprehensive income	151,084	198,397	44,968	43,181	437,630
Financial investments – equity investments at fair value through other comprehensive income	6,200	1,087	101	–	7,388
Financial investments – debt instruments at amortised cost	1,981,956	15,707	–	2,842	2,000,505
Other assets	121,427	117,928	7,410	1,157	247,922
Total assets	8,133,270	1,027,151	211,477	159,273	9,531,171
Liabilities					
Due to banks and other financial institutions	(1,776,123)	(332,360)	(2,364)	(51,446)	(2,162,293)
Financial liabilities at fair value through profit or loss	(4,155)	(1,137)	(7,234)	(10,583)	(23,109)
Derivative financial liabilities	(24,021)	(900)	(2,809)	(375)	(28,105)
Due to customers	(5,122,012)	(437,650)	(207,753)	(25,909)	(5,793,324)
Other liabilities	(567,133)	(209,406)	(18,064)	(24,429)	(819,032)
Total liabilities	(7,493,444)	(981,453)	(238,224)	(112,742)	(8,825,863)
Net position	639,826	45,698	(26,747)	46,531	705,308
Financial guarantees and credit related commitments	1,281,258	134,995	27,704	12,261	1,456,218

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.5 *Foreign exchange risk* *(Continued)*

	RMB	USD (RMB Equivalent)	HKD (RMB Equivalent)	Others (RMB Equivalent)	Total
As at 31 December 2017					
Assets					
Cash and balances with central banks	879,753	37,073	2,573	19,172	938,571
Due from banks and other financial institutions	449,036	286,691	28,126	18,615	782,468
Derivative financial assets	31,506	1,222	251	1,028	34,007
Financial assets at fair value through profit or loss	202,380	19,961	3,056	1,633	227,030
Loans and advances to customers	3,914,731	363,558	143,396	51,570	4,473,255
Financial investments – loans and receivables	386,494	1,239	–	–	387,733
Financial investments – available-for-sale	185,123	151,492	29,487	36,036	402,138
Financial investments – held-to-maturity	1,498,292	9,371	–	3,712	1,511,375
Other assets	189,986	84,823	4,632	2,236	281,677
Total assets	7,737,301	955,430	211,521	134,002	9,038,254
Liabilities					
Due to banks and other financial institutions	(1,668,277)	(379,647)	(12,057)	(46,211)	(2,106,192)
Derivative financial liabilities	(26,883)	(2,997)	(536)	(2,928)	(33,344)
Financial liabilities at fair value through profit or loss	(5,529)	(14,748)	(6,678)	(9)	(26,964)
Due to customers	(4,885,189)	(424,411)	(202,002)	(33,764)	(5,545,366)
Other liabilities	(458,976)	(157,279)	(13,065)	(20,797)	(650,117)
Total liabilities	(7,044,854)	(979,082)	(234,338)	(103,709)	(8,361,983)
Net position	692,447	(23,652)	(22,817)	30,293	676,271
Financial guarantees and credit related commitments	1,228,550	145,088	21,199	17,866	1,412,703

3.2.6 *Other price risk*

The Group is exposed to other price risk arising from financial assets such as equity investments and derivatives linked to commodity price. Part of the equity investments arise from taking possession of foreclosed assets due to historical reasons and from the proprietary trading of the Group's subsidiaries which hold the qualification of securities dealing and brokerage as well. As for the proprietary trading exposure, the Group enforces strict management of the risk exposure limit and the balance is insignificant to the Group's financial assets. The Group considers the exposure to the other price risk to be insignificant.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk

3.3.1 Overview

Liquidity risk is the risk that the Group will be unable to meet its payment obligations associated with its financial liabilities when they fall due and other current liquidity needs. The consequence may be the failure to meet obligations to repay depositors and fulfill loan commitments for lending. The Group's objective in liquidity management is to ensure the availability of adequate funding to meet the demands of fund deposit withdrawals and other liabilities as they fall due and to ensure that it is able to meet its obligations to fund loan originations and commitments and to take advantage of new investment opportunities.

The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, matured deposits, loan drawdowns, guarantees and from margin and other calls on cash settled derivatives. The Board of Directors set limits on the minimum proportion of funds to meet such calls and on the minimum level of interbank and other borrowing facilities that should be in place to cover different levels of unexpected withdrawals. As at 31 December 2018, 14.0% (31 December 2017: 16.5%) of the Group's total RMB denominated due to customers and 5.0% (31 December 2017: 5.0%) of the total foreign currency denominated due to customers must be deposited with the PBOC.

3.3.2 Liquidity risk management process

The Group's liquidity risk management process, as monitored by the Assets and Liabilities Management Department for RMB business and foreign exchange business, includes:

- Enhance weighting of core deposits as a percentage of liabilities, so as to improve the stability of liabilities;

- Monitor and manage liquidity position bank-wide by implementing a series of indicators and restrictions;

- Liquidity position management and cash utilisation functions are centralised by the Headquarters;

- Maintain an appropriate level of central bank reserves, overnight inter-bank transactions, highly liquid debt investment, actively involved in capital management through open market, monetary market and bond market in order to ensure optimal financing capability at market places;

- Minimise liquidity risks by proper matching of asset maturity structures and multi-level liquidity portfolios.

The Group monitors and reports cash flow measurement and projections made for the next day, week and month separately, as these are key time periods for liquidity risk management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities (Notes 3.3.3 – 3.3.4).

Sources of funding are regularly reviewed by the Assets and Liabilities Management Department to maintain a wide diversification of fundings in terms of currency, geography, customer, product and maturity terms.

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk *(Continued)*

3.3.3 Non-derivative financial instruments cash flows

The table below presents the cash flows of the Group related to non-derivative financial liabilities and assets held for managing liquidity risk by remaining contractual maturities at the end of the reporting date. The amounts disclosed in the tables are undiscounted contractual cash flows. The Group's expected cash flows on these financial instruments may vary significantly from the following analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance although they have been classified as repayable on demand in the following tables.

	Overdue	Undated	On Demand	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
As at 31 December 2018									
Liabilities									
Due to banks and other financial institutions	–	–	(438,924)	(356,970)	(333,168)	(985,845)	(50,277)	(32,319)	(2,197,503)
Non-derivative financial liabilities at fair value through profit or loss	–	–	(865)	(2,980)	(5,857)	(6,265)	(7,726)	–	(23,693)
Due to customers	–	–	(2,443,124)	(555,345)	(399,059)	(1,659,473)	(704,621)	(80,025)	(5,841,647)
Certificates of deposit issued	–	–	–	(41,447)	(106,436)	(209,534)	(15,446)	–	(372,863)
Debt securities issued	–	–	–	(3,665)	(3,474)	(39,527)	(199,677)	(129,224)	(375,567)
Other financial liabilities	–	–	(34,370)	(247)	(237)	(903)	(6,096)	(26,029)	(67,882)
Total liabilities (contractual maturity dates)	–	–	(2,917,283)	(960,654)	(848,231)	(2,901,547)	(983,843)	(267,597)	(8,879,155)
Assets									
Cash and balances with central banks	–	713,376	126,424	–	371	–	–	–	840,171
Due from banks and other financial institutions	–	–	93,517	335,541	68,165	208,480	145,585	5,471	856,759
Non-derivative financial assets at fair value through profit or loss	458	194,838	8,232	7,416	10,235	51,034	72,536	54,336	399,085
Loans and advances to customers	36,953	–	–	680,810	287,572	1,307,557	1,520,092	2,574,873	6,407,857
Financial investments – debt instruments at fair value through other comprehensive income	–	–	–	12,314	28,455	114,936	252,017	63,611	471,333
Financial investments – equity investments at fair value through other comprehensive income	–	7,388	–	–	–	–	–	–	7,388
Financial investments – debt instruments at amortised cost	600	–	–	39,005	55,896	266,384	1,375,516	557,879	2,295,280
Other financial assets	781	–	35,288	–	–	–	–	–	36,069
Assets held for managing liquidity risk (contractual maturity dates)	38,792	915,602	263,412	1,075,086	450,694	1,948,391	3,365,746	3,256,170	11,313,942
Net position	38,792	915,602	2,653,822	114,432	(397,537)	(953,156)	2,381,903	2,988,573	2,434,787

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk *(Continued)*

3.3.3 Non-derivative financial instruments cash flows *(Continued)*

	Overdue	Undated	On Demand	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
As at 31 December 2017									
Liabilities									
Due to banks and other financial institutions	–	–	(381,473)	(450,804)	(548,784)	(719,079)	(63,486)	(24,185)	(2,187,811)
Non-derivative financial liabilities at fair value through profit or loss	–	–	(585)	(7,187)	(8,018)	(6,996)	(4,628)	–	(27,414)
Due to customers	–	–	(2,512,237)	(692,488)	(578,392)	(953,188)	(894,025)	(9,908)	(5,640,238)
Certificates of deposit issued	–	–	–	(23,916)	(46,388)	(72,225)	(8,503)	–	(151,032)
Debt securities issued	–	–	–	(5,001)	(1,214)	(26,020)	(209,451)	(133,154)	(374,840)
Other financial liabilities	–	–	(29,241)	(198)	(122)	(1,549)	(5,041)	(25,758)	(61,909)
Total liabilities (contractual maturity dates)	–	–	(2,923,536)	(1,179,594)	(1,182,918)	(1,779,057)	(1,185,134)	(193,005)	(8,443,244)
Assets									
Cash and balances with central banks	–	809,261	129,158	–	1,198	153	–	–	939,770
Due from banks and other financial institutions	–	–	76,427	357,232	83,896	237,855	32,219	–	787,629
Non-derivative financial assets at fair value through profit or loss	270	84,172	4,967	9,123	17,959	57,756	53,759	10,597	238,603
Loans and advances to customers	52,025	–	–	559,298	321,251	1,217,456	1,485,862	2,233,973	5,869,865
Financial investments – loans and receivables	80	–	–	6,091	10,383	72,777	246,892	134,146	470,369
Financial investments – available-for-sale	–	8,390	–	18,431	24,418	64,881	261,598	77,780	455,498
Financial investments – held-to-maturity	–	–	–	30,094	43,476	174,642	1,030,820	464,720	1,743,752
Other financial assets	121	–	41,416	–	–	–	–	–	41,537
Assets held for managing liquidity risk (contractual maturity dates)	52,496	901,823	251,968	980,269	502,581	1,825,520	3,111,150	2,921,216	10,547,023
Net position	52,496	901,823	(2,671,568)	(199,325)	(680,337)	46,463	1,926,016	2,728,211	2,103,779

Assets available to meet all of the liabilities include cash, balances with central banks, balances in the course of collection and settlement, due from banks and other financial institutions and loans and advances to customers. In the normal course of business, a proportion of loans and advances to customers contractually repayable within one year will be extended. In addition, certain debt securities have been pledged for liabilities. The Group would also be able to meet unexpected cash outflows by selling financial investments, using credit commitment provided by other financial institutions, early termination of lending to other financial institutions and reverse repurchase agreement and utilising the mandatory reserve deposits upon the PBOC's approval.

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk *(Continued)*

3.3.4 Derivative financial instruments cash flows

The Group's derivative financial instruments are either settled on a net basis or a gross basis.

(a) Derivative settled on a net basis

The Group's derivative financial instruments that will be settled on a net basis include:

- Foreign exchange and commodity contracts: non-deliverable forward;
- Interest rate contracts and others: interest rate swaps, forward rate agreements, over the counter interest rate options and others.

The table below analyses the Group's derivative financial instruments which will be settled on a net basis under relevant maturity groupings based on the remaining contractual period as at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
As at 31 December 2018						
Assets						
Derivative financial instruments held for trading						
– Foreign exchange and commodity contracts	6	–	–	–	–	6
– Interest rate contracts and others	99	257	1,016	2,316	180	3,868
Total	105	257	1,016	2,316	180	3,874
Liabilities						
Derivative financial instruments held for trading						
– Foreign exchange and commodity contracts	(145)	(220)	(389)	–	–	(754)
– Interest rate contracts and others	(64)	(200)	(760)	(1,836)	(104)	(2,964)
Total	(209)	(420)	(1,149)	(1,836)	(104)	(3,718)

	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
As at 31 December 2017						
Assets						
Derivative financial instruments held for trading						
– Foreign exchange and commodity contracts	97	241	497	–	–	835
– Interest rate contracts and others	140	287	718	1,348	100	2,593
Total	237	528	1,215	1,348	100	3,428
Liabilities						
Derivative financial instruments held for trading						
– Foreign exchange and commodity contracts	(198)	(105)	(61)	–	–	(364)
– Interest rate contracts and others	(69)	(172)	(546)	(918)	(35)	(1,740)
Total	(267)	(277)	(607)	(918)	(35)	(2,104)

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk *(Continued)*

3.3.4 Derivative financial instruments cash flows *(Continued)*

(b) Derivative settled on a gross basis

The Group's derivative financial instruments that will be settled on a gross basis include: currency forward, currency swaps, cross currency interest rate swaps, commodity forward and commodity swaps, etc.

The table below analyses the Group's derivative financial instruments which will be settled on a gross basis under relevant maturity groupings based on the remaining contractual period as at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows:

	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
As at 31 December 2018						
Derivative financial instruments held for trading						
– Foreign exchange and commodity contracts						
– Outflow	(745,533)	(542,190)	(1,458,561)	(41,111)	(1,241)	(2,788,636)
– Inflow	746,029	542,837	1,458,647	41,052	2,870	2,791,435
Total	496	647	86	(59)	1,629	2,799

	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
As at 31 December 2017						
Derivative financial instruments held for trading						
– Foreign exchange and commodity contracts						
– Outflow	(567,886)	(514,787)	(1,272,481)	(74,494)	–	(2,429,648)
– Inflow	568,303	514,893	1,271,064	74,841	–	2,429,101
Total	417	106	(1,417)	347	–	(547)

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk *(Continued)*

3.3.5 Maturity analysis

The table below analyses the Group's assets and liabilities into relevant maturity groupings based on the remaining period at the end of reporting date to the contractual maturity date.

	On demand	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Overdue	Undated	Total
As at 31 December 2018									
Assets									
Cash and balances with central banks	126,424	–	371	–	–	–	–	713,376	840,171
Due from banks and other financial institutions	93,420	330,936	67,073	207,595	143,572	5,471	–	–	848,067
Derivative financial assets	–	5,601	6,887	13,831	2,859	1,552	–	–	30,730
Financial investments – financial assets at fair value through profit or loss	8,232	7,253	9,786	47,586	58,183	50,050	458	194,838	376,386
Loans and advances to customers	–	664,962	257,043	1,191,035	1,088,301	1,514,178	26,853	–	4,742,372
Financial investments – debt instruments at fair value through other comprehensive income	–	13,348	27,707	106,691	232,364	57,520	–	–	437,630
Financial investments – equity investments at fair value through other comprehensive income	–	–	–	–	–	–	–	7,388	7,388
Financial investments – debt instruments at amortised cost	–	38,084	52,330	227,158	1,187,867	494,466	600	–	2,000,505
Other assets	55,165	–	165	499	21,311	1,309	781	168,692	247,922
Total assets	283,241	1,060,184	421,362	1,794,395	2,734,457	2,124,546	28,692	1,084,294	9,531,171
Liabilities									
Due to banks and other financial institutions	(438,924)	(354,689)	(329,637)	(966,127)	(46,308)	(26,608)	–	–	(2,162,293)
Financial liabilities at fair value through profit or loss	(865)	(2,968)	(5,801)	(5,978)	(7,497)	–	–	–	(23,109)
Derivative financial liabilitiies	–	(5,036)	(6,199)	(14,435)	(2,199)	(236)	–	–	(28,105)
Due to customers	(2,442,774)	(554,332)	(397,452)	(1,649,194)	(674,006)	(75,566)	–	–	(5,793,324)
Other liabilities	(50,161)	(53,191)	(118,200)	(238,444)	(214,200)	(144,836)	–	–	(819,032)
Total liabilities	(2,932,724)	(970,216)	(857,289)	(2,874,178)	(944,210)	(247,246)	–	–	(8,825,863)
Net amount on liquidity gap	(2,649,483)	89,968	(435,927)	(1,079,783)	1,790,247	1,877,300	28,692	1,084,294	705,308

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk *(Continued)*

3.3.5 Maturity analysis *(Continued)*

	On demand	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Overdue	Undated	Total
As at 31 December 2017									
Assets									
Cash and balances with central banks	129,158	–	–	152	–	–	–	809,261	938,571
Due from banks and other financial institutions	76,427	357,109	81,883	234,917	32,132	–	–	–	782,468
Derivative financial assets	–	6,237	8,381	15,942	3,143	304	–	–	34,007
Financial assets at fair value through profit or loss	4,968	8,938	17,312	54,804	47,154	9,413	270	84,171	227,030
Loans and advances to customers	–	544,512	292,796	1,115,050	1,105,688	1,371,355	43,854	–	4,473,255
Financial investments – loans and receivables	–	5,144	6,701	57,857	205,004	112,947	80	–	387,733
Financial investments – available-for-sale	–	17,690	22,554	55,866	234,404	63,234	–	8,390	402,138
Financial investments – held-to-maturity	–	26,455	36,150	134,704	895,522	418,544	–	–	1,511,375
Other assets	50,526	9,672	13,471	7,465	33,354	8,377	121	158,691	281,677
Total assets	261,079	975,757	479,248	1,676,757	2,556,401	1,984,174	44,325	1,060,513	9,038,254
Liabilities									
Due to banks and other financial institutions	(381,472)	(448,523)	(543,334)	(706,377)	(10,870)	(15,616)	–	–	(2,106,192)
Financial liabilities at fair value through profit or loss	(585)	(7,174)	(7,883)	(6,867)	(4,455)	–	–	–	(26,964)
Derivative financial liabilitiies	–	(6,384)	(7,669)	(16,868)	(2,222)	(201)	–	–	(33,344)
Due to customers	(2,512,066)	(686,030)	(569,933)	(929,244)	(838,196)	(9,897)	–	–	(5,545,366)
Other liabilities	(47,566)	(53,545)	(65,062)	(117,156)	(217,476)	(149,312)	–	–	(650,117)
Total liabilities	(2,941,689)	(1,201,656)	(1,193,881)	(1,776,512)	(1,073,219)	(175,026)	–	–	(8,361,983)
Net amount on liquidity gap	(2,680,610)	(225,899)	(714,633)	(99,755)	1,483,182	1,809,148	44,325	1,060,513	676,271

3.3.6 Off-balance sheet items

The table below lists the off-balance sheet items of the Group according to their remaining period to the contractual maturity date. Financial guarantees are included at notional amounts and based on the earliest contractual maturity date.

	Up to 1 year	1–5 years	Over 5 years	Total
As at 31 December 2018				
Loan commitments and credit related commitments	**787,886**	**21,417**	**9,131**	**818,434**
Guarantees, acceptances and letters of credit	**527,162**	**106,736**	**3,886**	**637,784**
Total	**1,315,048**	**128,153**	**13,017**	**1,456,218**
As at 31 December 2017				
Loan commitments and credit related commitments	766,298	44,058	1,961	812,317
Guarantees, acceptances and letters of credit	469,307	113,192	17,887	600,386
Total	1,235,605	157,250	19,848	1,412,703

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.4 Fair value of financial assets and liabilities

(a) Determination of fair value and valuation techniques

Certain financial assets and liabilities of the Group are measured at fair value or with fair value disclosed for financial reporting purposes. The fair value has been determined using appropriate valuation techniques and inputs for fair value measurements. The appropriateness of the valuation techniques and the inputs to the fair value measurements are reviewed by the Board of Directors periodically.

Fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

(1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

(2) Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

(3) Level 3 inputs are unobservable inputs for the asset or liability.

The fair value of financial instruments with unadjusted quoted prices for identical instruments in active markets is determined by the open market quotations. These instruments are classified as level 1.

The Group uses valuation techniques to determine the fair value of financial instruments when an open market quotation in active markets is not obtainable.

If the key parameters used in valuation techniques for financial instruments (including debt securities and derivatives) are substantially observable and obtainable from active open market, the instruments are classified as level 2. The second hierarchy of financial instruments held by the Group includes over-the-counter derivatives, certificates of deposits without quotations from active market, precious metals, the second tier capital bonds and debt instruments trading in inter-bank market, and loans and advances carried at FVOCI. The fair value of RMB denominated bonds is determined based on the valuation result from the China Central Depository & Clearing Co., Ltd. while the fair value of the foreign currency denominated bonds is determined based on the valuation results published by Bloomberg. The fair value of foreign currency forwards, swaps and interest rate swaps, currency options is estimated by the discounted cash flow method and Black-Scholes model; the fair value of precious metal contract is mainly determined in accordance with the closing prices of the Shanghai Gold Exchange or the settlement prices of the Shanghai Futures Exchange. The main parameters used in discounted cash flow model include recent market prices, the relevant yield curve, exchange rates and counterparty's credit spreads; main parameters used in Black-Scholes model include the relevant yield curve, exchange rate level of volatilities and counterparty credit spread etc. All parameters used in valuation techniques are substantially observable and obtainable from active open market.

For Loans and advances to customers, Trust and Management plan, the fair value is determined based on discounted cash flow model using unobservable discount rates that reflect credit risk and liquidity.

For convertible loans, unlisted equities, unlisted funds, equity derivatives and part of loans and advances to customers held by the Group, the fair value of these financial instruments are determined with reference to certain unobservable inputs, and therefore the instruments have been classified by the Group as level 3. Management determines the fair value of these financial instruments using a variety of techniques, including using valuation models that incorporate unobservable inputs such as discounts for considering market liquidity. The Group has established internal control procedures to monitor the Group's exposure to such financial instruments.

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.4 Fair value of financial assets and liabilities *(Continued)*

(b) Financial instruments not measured at fair value

The table below summarises the carrying amounts and fair values where there are obvious variances from the carrying amounts, of those financial assets and liabilities that are not presented on the statement of financial position at their fair values.

	As at 31 December 2018		As at 31 December 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Financial investments – debt instruments at amortised cost	**2,000,505**	**2,013,818**	N.A.	N.A.
Financial investments – loans and receivables	**N.A.**	**N.A.**	387,733	384,546
Financial investments – held-to-maturity	**N.A.**	**N.A.**	1,511,375	1,471,789
Financial liabilities				
Debt securities issued	**(301,151)**	**(304,328)**	(269,615)	(267,754)

The carrying amounts and fair values of other financial assets and liabilities including loans and advances to customers, due to customers, due from/to banks and other financial institutions are approximately the same as the interest rates of most of these assets and liabilities are instantaneously adjusted in accordance to changes in interest rates set by the PBOC and other regulatory bodies.

Fair value hierarchy of financial instruments not measured at fair value

	Level 1	Level 2	Level 3	Total
As at 31 December 2018				
Financial assets				
Financial investments – debt instruments at amortised cost	**14,022**	**1,793,650**	**206,146**	**2,013,818**
Financial liabilities				
Debt securities issued	**–**	**(304,328)**	**–**	**(304,328)**

	Level 1	Level 2	Level 3	Total
As at 31 December 2017				
Financial assets				
Financial investments – loans and receivables	–	104,618	279,928	384,546
Financial investments – held-to-maturity	16,115	1,455,674	–	1,471,789
Financial liabilities				
Debt securities issued	–	(267,754)	–	(267,754)

The carrying amounts and fair values of these financial assets and liabilities including loans and advances, due to customers, due from/to banks and other financial institutions are approximately the same as the interest rates of most of these assets and liabilities are instantaneously adjusted in accordance to changes in interest rates set by the PBOC and other regulatory bodies.

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.4 Fair value of financial assets and liabilities *(Continued)*

(c) Financial assets and financial liabilities measured at fair value on a recurring basis

The table below summarises the information relating to the fair value hierarchy of the financial assets and financial liabilities measured at fair value on a recurring basis.

	Level 1	Level 2	Level 3	Total
As at 31 December 2018				
Financial assets at fair value through profit or loss				
Debt securities				
– Governments and central banks	1,925	3,636	–	5,561
– Public sector entities	90	2,498	–	2,588
– Banks and other financial institutions	4,031	86,950	255	91,236
– Corporate entities	696	29,368	3,417	33,481
Fund investments and other asset management plan	47	180,846	6,670	187,563
Equity securities	1,099	–	9,233	10,332
Derivative financial instruments				
– Foreign exchange and commodity contracts	–	26,442	–	26,442
– Interest rate contracts and others	–	3,307	981	4,288
Precious metal contracts	–	37,232	–	37,232
Loans to banks and other financial institutions	–	8,393	–	8,393
Loans and advances to customers designated at fair value through profit or loss	–	–	494	494
	7,888	378,672	21,050	407,610
Financial investments – FVOCI				
Investments in debt instruments measured at FVOCI				
– Governments and central banks	28,115	38,505	–	66,620
– Public sector entities	124	3,575	–	3,699
– Banks and other financial institutions	152,355	159,984	–	312,339
– Corporate entities	29,900	24,691	381	54,972
Investments in equity instruments designated at fair value through other comprehensive income	2,096	–	5,292	7,388
Loans and advances to customers designated at fair value through other comprehensive income	–	184,159	25	184,184
	212,590	410,914	5,698	629,202
Total assets	220,478	789,586	26,748	1,036,812
Financial liabilities at fair value through profit or loss				
Certificates of deposits issued	–	(11,660)	–	(11,660)
Derivative financial instruments				
– Foreign exchange and commodity contracts	–	(25,640)	–	(25,640)
– Interest rate contracts and others	–	(2,465)	–	(2,465)
Financial liabilities related to precious metal contracts	–	(11,449)	–	(11,449)
Debt securities issued	–	(16,537)	–	(16,537)
Total liabilities	–	(67,751)	–	(67,751)

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.4 Fair value of financial assets and liabilities *(Continued)*

(c) *Financial assets and financial liabilities measured at fair value on a recurring basis* *(Continued)*

	Level 1	Level 2	Level 3	Total
As at 31 December 2017				
Financial assets at fair value through profit or loss				
Financial assets held for trading				
Debt securities				
– Governments and central banks	5,102	6,980	–	12,082
– Public sector entities	88	2,127	–	2,215
– Banks and other financial institutions	4,117	41,863	–	45,980
– Corporate entities	826	27,827	–	28,653
Fund investments and other asset management plan	60	81,770	2,042	83,872
Equity securities	2	–	298	300
Derivative financial instruments				
– Foreign exchange and commodity contracts	–	31,655	–	31,655
– Interest rate contracts and others	–	2,352	–	2,352
Precious metal contracts	–	41,198	–	41,198
	10,195	235,772	2,340	248,307
Financial investments designated at FVPL				
Loans to banks and other financial institutions	–	12,730	–	12,730
	–	12,730	–	12,730
Available-for-sale financial assets				
Debt securities				
– Governments and central banks	14,711	23,072	–	37,783
– Public sector entities	69	4,282	–	4,351
– Banks and other financial institutions	123,843	178,575	–	302,418
– Corporate entities	20,253	25,339	3,604	49,196
Fund investments and others	–	2,101	482	2,583
Equity securities	3,158	–	2,649	5,807
	162,034	233,369	6,735	402,138
Total assets	172,229	481,871	9,075	663,175
Financial liabilities at fair value through profit or loss				
Short position of securities held for trading	(2,485)	–	–	(2,485)
Certificates of deposits issued	–	(12,654)	–	(12,654)
Derivatives				
– Foreign exchange and commodity contracts	–	(31,819)	–	(31,819)
– Interest rate contracts and others	–	(1,525)	–	(1,525)
Financial liabilities related to precious metal contracts	–	(11,825)	–	(11,825)
Debt securities issued	–	(18,047)	–	(18,047)
Total liabilities	(2,485)	(75,870)	–	(78,355)

There was no transfer between level 1 and 2 during the period.

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.4 Fair value of financial assets and liabilities *(Continued)*

(c) Financial assets and financial liabilities measured at fair value on a recurring basis *(Continued)*

Reconciliation of level 3 items

	Financial assets at fair value through profit or loss	**Financial assets at fair value through other comprehensive income**
Balance at 1 January 2018	**14,107**	**1,577**
Total gains or losses		
– Net gains arising from trading activities	**217**	**32**
– Other comprehensive income	**–**	**(314)**
Additions	**14,079**	**4,836**
Disposals and settlement	**(7,353)**	**(433)**
Transfer to other levels	**–**	**–**
Balance at 31 December 2018	**21,050**	**5,698**
Total gains/(losses) for consolidated financial assets/liabilities held at 31 December 2018		
– Realised gains/(losses)	**327**	**33**
– Unrealised gains/(losses)	**(110)**	**(315)**

	Financial assets at fair value through profit or loss	Available-for-sale financial assets
Balance at 1 January 2017	–	5,925
Total gains or losses		
– Net gains arising from trading activities	12	(286)
– Other comprehensive income	–	(1,132)
Additions	2,328	2,264
Disposals	–	(30)
Transfer to other levels	–	(6)
Balance at 31 December 2017	2,340	6,735
Total gains/(losses) for consolidated financial assets/liabilities held at 31 December 2017		
– Realised gains/(losses)	12	(286)
– Unrealised gains/(losses)	–	(1,132)

These financial instruments with fair values determined based on unobservable inputs are primarily convertible loans, unlisted equities, unlisted funds, part of the trust and asset management plan, equity derivatives and part of loans and advances to customers. The fair value of these financial instruments is determined primarily using market comparison method. These valuation methods involve inputs from various unobservable assumptions such as price over book ratio and marketability discounts.

As at 31 December 2018, the carrying amounts of financial instruments with fair values determined based on unobservable inputs were insignificant, and the effect on the valuation results by using reasonable alternatives for the unobservable assumptions is considered to be insignificant.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.5 Offsetting financial assets and financial liabilities

Certain financial assets and financial liabilities of the Group are subject to enforceable master netting arrangements or similar agreements. The agreement between the Group and the counterparty generally allows for net settlement of the relevant financial assets and financial liabilities when both elect to settle on a net basis. In the absence of such a mutual consent, financial assets and financial liabilities will be settled on a gross basis. However, each party to the master netting arrangements or similar agreements will have the option to settle all such amounts on a net basis in the event of default of the other party. These financial assets and financial liabilities of the Group are not offset in accordance with IFRS.

As at 31 December 2018, the amount of the financial assets and financial liabilities subject to enforceable master netting arrangements or similar agreements is not material to the Group.

3.6 Capital management

The Group's objectives in managing "capital", which is a broader concept than the "shareholder equity" on the statement of financial position, are:

- To comply with the capital requirements set by the regulators of the markets where the Group operates;

- To ensure the Group's ability to maintain a stable operation so as to continue provide returns for shareholders and benefits for other stakeholders; and

- To maintain a strong capital base to support the development of its business.

The Group management adopts administrative measures issued by CBIRC, which was developed based on guideline issued by the Based Committee, in monitoring its capital adequacy and the usage of regulatory capital on a quarterly basis.

The Administrative Measures for the Capital of Commercial Banks (Provisional) specified the regulatory requirements for minimum capital, capital conservation buffer, additional capital surcharge for systemically important banks, countercyclical buffer and Pillar II capital as follows:

- Minimum regulatory requirements for Core Tier 1 Capital adequacy ratio, Tier 1 Capital adequacy ratio and Capital adequacy ratio are 5%, 6% and 8%, respectively;

- Capital conservation buffer requires additional 2.5% on Core Tier 1 Capital adequacy ratio;

- Additional capital surcharge for systemically important banks requires additional 1% on Core Tier 1 Capital adequacy ratio;

- Should the regulators require countercyclical buffer under particular circumstances or regulators impose additional Pillar II capital requirements for specific banks, these requirements shall be met within the specified time limits.

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.6 Capital management *(Continued)*

The Group's capital as monitored by its Planning and Finance Department consists of the following:

- Core Tier 1 Capital, including ordinary shares, eligible portion of capital surplus, statutory reserve, statutory general reserve, retained earnings, eligible portion of non-controlling interests and translation reserve on foreign operations;

- Additional Tier 1 Capital, including additional Tier 1 Capital instruments issued and related premium and eligible portion of non-controlling interests;

- Tier 2 Capital, including Tier 2 Capital instruments issued and related premium, excess loan loss provisions and eligible portion of non-controlling interests.

The Group's deductible items from Core Tier 1 Capital include: Goodwill, other intangible assets (except land use rights), investments in Core Tier 1 Capital of financial institutions with controlling interests but outside the scope of regulatory consolidation.

In April 2014, CBIRC officially approved the implementation of the advanced approach of capital management adopted by the Bank. In this approach, the Bank elected to use elementary internal rating based ("IRB") approach for corporate risk exposure, IRB approach for retail risk exposure, internal models approach for market risk and standardised approach for operational risk exposure which is compliant with regulatory requirements. For risk exposures not covered by the advanced approaches, the corresponding portion shall be calculated by adopting non-advanced approaches. The capital ratios calculated based on *Administrative Measures for the Capital of Commercial Banks (Provisional)* are as follows:

Item	As at 31 December 2018	As at 31 December 2017
Core Tier 1 Capital adequacy ratio (%)	**11.16**	10.79
Tier 1 Capital adequacy ratio (%)	**12.21**	11.86
Capital adequacy ratio (%)	**14.37**	14.00
Core Tier 1 Capital	**640,373**	613,104
Core Tier 1 Capital deductions	**(5,566)**	(3,650)
Net Core Tier 1 Capital	**634,807**	609,454
Additional Tier 1 Capital	**60,025**	59,975
Net Tier 1 Capital	**694,832**	669,429
Tier 2 Capital	**122,717**	120,952
Net Capital	**817,549**	790,381
Risk-weighted asset	**5,690,542**	5,646,313

(All amounts expressed in millions of RMB unless otherwise stated)

4 NET INTEREST INCOME

	Year ended 31 December	
	2018	2017
Interest income		
Loans and advances to customers	**225,422**	200,207
Financial investments	**85,449**	79,895
Due from banks and other financial institutions	**24,945**	20,528
Balances with central banks	**13,048**	13,570
	348,864	314,200
Interest expense		
Due to customers	**(128,589)**	(111,366)
Due to banks and other financial institutions	**(66,788)**	(64,751)
Certificates of deposits issued	**(11,344)**	(3,572)
Debt securities issued	**(11,235)**	(9,638)
	(217,956)	(189,327)
Net interest income	**130,908**	124,873
Including:		
Interest income on impaired financial assets	**1,618**	1,812

5 FEE AND COMMISSION INCOME

	Year ended 31 December	
	2018	2017
Bank cards	**20,114**	16,267
Management services	**12,524**	14,948
Investment banking	**4,424**	4,518
Agency services	**2,777**	3,216
Guarantee and commitment	**2,461**	2,554
Settlement services	**2,167**	1,884
Others	**206**	673
	44,673	44,060

	Year ended 31 December	
	2018	2017
Fee income, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are not held for trading nor designated at fair value through profit or loss	**701**	907
Fee income on trust and other fiduciary activities where the Group holds or invests on behalf of its customers	**3,406**	3,124

(All amounts expressed in millions of RMB unless otherwise stated)

6 FEE AND COMMISSION EXPENSE

	Year ended 31 December	
	2018	2017
Bank card business	**2,326**	2,382
Settlement services	**771**	716
Others	**339**	411
	3,436	3,509

	Year ended 31 December	
	2018	2017
Fee expense, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are not held for trading nor designated at fair value through profit or loss	**5**	7

7 NET GAINS ARISING FROM TRADING ACTIVITIES

	Year ended 31 December	
	2018	2017
Financial instrument at fair value through profit and loss	**12,606**	3,633
Foreign exchange	**3,636**	(1,052)
Interest rate instruments and others	**857**	(485)
	17,099	2,096

Net gains on foreign exchange include gains or losses from the trading of spot and forward contracts, currency swaps, cross currency interest rate swaps, currency options and the translation of foreign currency monetary assets and liabilities into RMB.

Net gains on interest rate instruments and others include trading gains and losses and fair value changes of interest rate swaps, interest rate options and other derivatives.

Net income arising from trading activities for the year ended 31 December 2018 include an income of RMB26 million (for the year ended 31 December 2017: a loss of RMB24 million) in relation to changes in the fair value of financial liabilities designated at fair value through profit or loss.

8 OTHER OPERATING INCOME

	Year ended 31 December	
	2018	2017
Leasing income	**10,523**	8,661
Income from sales of precious metal merchandise	**2,351**	2,242
Revaluation of investment property	**117**	192
Net profit on the disposal of fixed and foreclosed assets	**15**	123
Other miscellaneous income	**2,807**	1,598
	15,813	12,816

Other miscellaneous income mainly includes income arising from miscellaneous banking services provided to the Group's customers.

(All amounts expressed in millions of RMB unless otherwise stated)

9 CREDIT IMPAIRMENT LOSSES/OTHER ASSETS IMPAIRMENT LOSSES/ASSETS IMPAIRMENT LOSSES

Credit impairment losses:

	Year ended 31 December 2018
Credit impairment losses on due from banks and other financial institutions	**(43)**
Credit impairment losses on loans and advances to customers at amortised cost	**42,813**
Credit impairment losses on loans and advances carried at FVOCI	**(317)**
Credit impairment losses on guarantee and commitment	**(1,142)**
Credit impairment losses on financial investments – debt instruments at amortised cost	**(362)**
Credit impairment losses on financial investments – debt instruments at FVOCI	**265**
Credit impairment losses on other receivables	**1,075**
Credit impairment losses on interest receivable of loans and advances to customers at amortised cost	**1,127**
Others	**38**
	43,454

Other assets impairment losses:

	Year ended 31 December 2018
Impairment losses on property and equipment	**33**
Impairment losses on foreclosed assets	**27**
	60

Assets impairment losses:

	Year ended 31 December 2017
Impairment losses on loans and advances to customers	30,161
Impairment losses on financial investments – available-for-sale	412
Impairment losses on financial investments – held-to-maturity	4
Impairment losses on Financial investments – loans and receivables	(195)
Impairment losses on property and equipment	80
Impairment losses on other receivables	991
Impairment losses on foreclosed assets	6
Impairment losses on unsettled assets	(1)
Others	11
	31,469

(All amounts expressed in millions of RMB unless otherwise stated)

10 OTHER OPERATING EXPENSES

	Year ended 31 December	
	2018	2017
Staff costs and benefits (Note 11)	**29,519**	28,193
General operational and administrative expense	**28,844**	26,334
Depreciations and amortisations	**5,677**	5,878
Leasing cost	**6,414**	3,437
Taxes and surcharges	**2,501**	2,481
Charge of provision for outstanding litigations	**549**	110
Others	**3,248**	3,142
	76,752	69,575

11 STAFF COSTS AND BENEFITS

	Year ended 31 December	
	2018	2017
Salaries and bonuses and allowances and subsidies	**20,599**	19,986
Post-employment benefit (a)	**3,380**	3,258
Other social security and benefit costs	**5,540**	4,949
	29,519	28,193

(a) Post-employment benefit

Defined contribution plans

The Group participates in various defined contribution retirement benefit plans organised by municipal and provincial governments in Mainland China under which it is required to make monthly contributions to these plans at rates ranging from 10% to 27% of the employees' basic salary for the period. The Group currently has no additional significant cost for the payment of retirement and other post-retirement benefits of employees other than the monthly contributions described above. The Group's contributions to these pension plans are charged to profit or loss and other comprehensive income in the period to which they relate.

Employees who retire after 1 January 2009 can voluntarily participate in an Annuity Plan. The Bank contributes to the Annuity Plan based on certain percentage of the employees' gross salary which is recognised in profit or loss as incurred.

The amount recognised in profit or loss is as follows:

	Year ended 31 December	
	2018	2017
Expenses incurred for retirement benefit plans and unemployment insurance	**2,532**	2,472
Expenses incurred for annuity plan	**820**	758
Total	**3,352**	3,230

The amount payable at the end of the year is as follows:

	As at 31 December 2018	As at 31 December 2017
Expenses incurred for retirement benefit plans and unemployment insurance	**64**	53
Expenses incurred for annuity plan	**14**	12
Total	**78**	65

(All amounts expressed in millions of RMB unless otherwise stated)

11 STAFF COSTS AND BENEFITS *(Continued)*

(a) Post-employment benefit *(Continued)*

Defined benefit plans

The Group pays supplementary retirement benefits to employees in Mainland China, who retired before 31 December 2008. The Group's obligations in respect of supplementary retirement benefits are calculated by estimating the amount of future benefits that the Group is committed to pay to the employees after their retirement using actuarial techniques. Such benefits, which are estimated by using key parameters such as inflation rate and mortality ratio, are discounted to their present values. The discount rate is the yield on government bonds at the end of reporting date, the maturity dates of which approximate to the terms of the Group's obligations. Actuarial gains and losses and changes in actuarial assumptions are recognised in other comprehensive income, and amendments to pension plan are recognised in profit or loss in the period of a plan amendment. The amounts recognised in the statement of financial position represent the present value of unfunded obligations.

Retirement benefit obligations of the Group in locations other than Mainland China, which are immaterial to the Group, are made in accordance with the relevant local policies and regulations.

	As at 31 December 2018	As at 31 December 2017
Statement of financial position		
– Obligations for pension benefits	**408**	395

Amounts recognised in comprehensive income in respect of the supplementary retirement benefits are as follows:

	Year ended 31 December	
	2018	2017
Components of defined benefit costs recognised in profit or loss	**28**	28
Components of defined benefit costs recognised in other comprehensive income	**25**	(31)
Total	**53**	(3)

Past service cost and interest expense were recognised in other operating expenses in the income statement.

Movements in the unfunded obligations over the year are as follows:

	Year ended 31 December	
	2018	2017
Present value of unfunded obligations at the beginning of the year	**395**	427
Retirement benefits paid during the year	**(40)**	(29)
Interest expense	**25**	26
Past service cost	**3**	2
Net actuarial (gains)/losses recognised in the current year	**25**	(31)
Present value of unfunded obligations at the end of the year	**408**	395

The average duration of the supplementary retirement benefits plan at 31 December 2018 is 10.95 years (31 December 2017: 11.75 years).

The Group expects to make a contribution of RMB41 million (2017: RMB42 million) to the defined benefit plan during the next financial year.

11 STAFF COSTS AND BENEFITS *(Continued)*

(a) Post-employment benefit *(Continued)*

Defined benefit plans *(Continued)*

The supplementary retirement benefits plan exposes the Group to actuarial risks such as interest risk, longevity risk and inflation risk. A decrease in the government bond yield will increase the present value of unfunded obligations. The present value of unfunded obligations is calculated by reference to the best estimate of the mortality of plan participants. An increase in the life expectancy of the plan participants will increase the plan's liability. The present value of unfunded obligations is also measured by future payment standards, which are determined by inflation rate. Hence, an increase in inflation rate will increase the present value of the unfunded obligations.

The principal actuarial assumptions regarding interest risk and inflation risk used by the Group are discount rate or inflation rate, which were 3.47% (31 December 2017: 4.05%) and 2.12% (31 December 2017: 1.58%) respectively as at 31 December 2018. In the meantime, assumptions regarding future mortality rate are set based on published statistics by China Insurance Regulatory Commission. As at 31 December 2018, an average longevity of a pensioner after retirement at age 60 for male is 19.70 years (31 December 2017: 19.70 years) while a pensioner after retirement at age 55 for female is 28.70 years (31 December 2017: 28.70 years).

Significant actuarial assumptions for the determination of the unfunded obligation are discount rate, inflation rate and mortality. The sensitivity analyses below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

(1) If the discount rate is 100 basis points higher (lower), the defined benefit obligation would decrease by RMB24 million (increase by RMB27 million).

(2) If the expected inflation rate increases (decreases) by 1%, the defined benefit obligation would increase by RMB27 million (decrease by RMB25 million).

(3) If the life expectancy increases (decreases) by one year for men and women, the defined benefit obligation would increase by RMB30 million (decrease by RMB29 million).

The sensitivity analysis presented above may not be representative of the actual change in the unfunded obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

In presenting the above sensitivity analysis, the present value of the unfunded obligation has been calculated at the end of the reporting period, which is the same as that applied in calculating the unfunded obligation liability recognised in the statement of financial position.

There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior years.

12 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(a) Directors', supervisors' and senior management's emoluments before taxation

(in thousands of RMB)	Year ended 31 December 2018			
Name	**Emoluments**	**Remuneration**	**Other benefits**	**Total**
Executive directors				
Mr. Peng, Chun	–	546	179	725
Mr. Ren, Deqi	–	273	103	376
Mr. Hou, Weidong	–	491	174	665
Non-executive directors				
Mr. Wang, Dongsheng	–	–	–	–
Mr. Wang, Taiyin	–	672	170	842
Mr. Song, Guobin	–	672	210	882
Mr. He, Zhaobin	–	672	210	882
Ms. Huang, Bijuan	–	–	–	–
Mr. Liu, Hanxing	–	–	–	–
Mr. Luo, Mingde	–	–	–	–
Mr. Liu, Haoyang	–	–	–	–
Mr. Yu, Yongshun	–	–	–	–
Ms. Li, Jian	250	–	–	250
Mr. Liu, Li	250	–	–	250
Mr. Yang, Zhiwei	250	–	–	250
Mr. Hu, Zhanyun	250	–	–	250
Mr. Cai, Haoyi	–	–	–	–
Supervisors				
Mr. Gu, Huizhong	–	–	–	–
Mr. Zhao, Yuguo	–	–	–	–
Mr. Liu, Mingxing	–	–	–	–
Ms. Zhang, Lili	–	–	–	–
Mr. Wang, Xueqing	–	–	–	–
Ms. Tang, Xinyu	–	–	–	–
Ms. Xia, Zhihua	–	–	–	–
Mr. Li, Yao	–	200	–	200
Ms. Chen, Qing	–	853	161	1,014
Mr. Du, Yarong	–	840	161	1,001
Mr. Xu, Ming	–	833	161	994
Mr. Guan, Xingshe	–	133	28	161
Total	1,000	6,185	1,557	8,742
Directors and supervisors that resigned in 2018				
Mr. Niu, Ximing	–	312	195	507
Ms. Yu, Yali	–	328	114	442
Mr. Shen, Rujun	–	409	158	567
Mr. Song, Shuguang	–	546	195	741
Mr. Fan, Jun	–	484	91	575
Mr. Chen, Zhiwu	146	–	–	146
Total	146	2,079	753	2,978

12 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(Continued)*

(a) Directors', supervisors' and senior management's emoluments before taxation *(Continued)*

(in thousands of RMB)	Year ended 31 December 2017			
Name	Emoluments	Remuneration	Other benefits	Total
Executive directors				
Mr. Niu, Ximing	–	552	177	729
Mr. Peng, Chun	–	672	168	840
Ms. Yu, Yali	–	605	163	768
Mr. Hou, Weidong	–	605	163	768
Non-executive directors				
Mr. Wang, Dongsheng	–	–	–	–
Mr. Wang, Taiyin	–	1,508	159	1,667
Mr. Song, Guobin	–	503	76	579
Mr. He, Zhaobin	–	503	76	579
Ms. Huang, Bijuan	–	–	–	–
Mr. Liu, Hanxing	–	–	–	–
Mr. Luo, Mingde	–	–	–	–
Mr. Liu, Haoyang	–	–	–	–
Mr. Chen, Zhiwu	250	–	–	250
Mr. Yu, Yongshun	–	–	–	–
Ms. Li, Jian	250	–	–	250
Mr. Liu, Li	250	–	–	250
Mr. Yang, Zhiwei	250	–	–	250
Mr. Hu, Zhanyun	24	–	–	24
Supervisors				
Mr. Song, Shuguang	–	519	183	702
Mr. Gu, Huizhong	–	–	–	–
Mr. Zhao, Yuguo	–	–	–	–
Mr. Liu, Mingxing	–	–	–	–
Ms. Zhang, Lili	–	–	–	–
Mr. Wang, Xueqing	–	–	–	–
Ms. Tang, Xinyu	–	–	–	–
Ms. Xia, Zhihua	–	–	–	–
Mr. Li, Yao	–	–	–	–
Ms. Chen, Qing	–	853	150	1,003
Mr. Du, Yarong	–	841	150	991
Mr. Fan, Jun	–	829	150	979
Mr. Xu, Ming	–	833	150	983
Total	1,024	8,823	1,765	11,612

(1) The total compensation package for directors and supervisors for the year ended 31 December 2018 has not yet been finalised in accordance with regulations of the PRC relevant authorities. The amount of the compensation not provided for is not expected to have significant impact to the Group's 2018 financial statements. The final compensation will be disclosed in a separate announcement when determined. The total final compensation for the year ended 31 December 2017 was disclosed in Information on the First Interim General Meeting of Stockholders in 2019 issued on 10 December 2018.

(2) Staff supervisors Ms. Chen, Qing, Mr. Du, Yarong, Mr. Xu Ming and Mr. Guan, Xingshe received compensation according to their staff position of the Bank and did not received additional compensation for being staff supervisors.

(3) During 2018 and 2017, there was no arrangement under which a director or a supervisor waived or agreed to waive any remuneration.

(4) Other benefits include social insurance, housing fund, enterprise annuity paid by the Bank.

(All amounts expressed in millions of RMB unless otherwise stated)

12 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(Continued)*

(b) Five highest paid individuals

The five highest paid individuals in the Group for the related years are as follows:

	Year ended 31 December	
	2018	2017
Salary	**14**	13
Discretionary bonuses	**14**	12
Employer's contribution to pension scheme and other benefits	**2**	2
Total	**30**	27

Emoluments of the above five highest paid individuals in the Group are within the following bands:

	Number of employees As at 31 December	
	2018	2017
HKD4,000,001 – 4,500,000	**–**	2
HKD4,500,001 – 5,000,000	**2**	2
HKD5,000,001 – 5,500,000	**2**	–
HKD5,500,001 – 6,000,000	**–**	–
HKD6,000,001 – 6,500,000	**–**	–
HKD6,500,001 – 7,000,000	**–**	–
HKD7,000,001 – 7,500,000	**–**	–
HKD7,500,001 – 8,000,000	**–**	–
HKD8,000,001 – 8,500,000	**–**	1
HKD8,500,001 – 9,000,000	**–**	–
HKD9,000,001 – 9,500,000	**–**	–
HKD9,500,001 – 10,000,000	**1**	–
	5	5

During 2018 and 2017, no emolument was paid by the Group to any of the directors, supervisors and the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

13 INCOME TAX

	Year ended 31 December	
	2018	2017
Current tax		
– PRC enterprise income tax	**6,838**	13,602
– Hong Kong profits tax	**1,058**	826
– Overseas taxations	**593**	408
	8,489	14,836
Deferred income tax (Note 24)	**3,413**	(2,262)
	11,902	12,574

The provision for enterprise income tax in PRC is calculated based on the statutory rate of 25% (2017: 25%) of the assessable income of the Bank and each of the subsidiaries established in PRC. Taxation arising in other jurisdictions (including Hong Kong) is calculated at the rates prevailing in the relevant jurisdictions, the shortfall arising from the differential in tax rates of overseas branches as compared with the PRC tax rate shall be reported and paid by the PRC head office.

13 INCOME TAX *(Continued)*

The taxation on the Group's profit before tax differs from the theoretical amount that would arise using the tax rate of the home country of the Group at 25% (2017: 25%). The major reconciliation items are as follows:

	Year ended 31 December	
	2018	2017
Profit before tax	**86,067**	83,265
Tax calculated at a tax rate of 25%	**21,517**	20,816
Effect of different tax rates in other countries (or regions)	**(33)**	(31)
Tax effect of expense not deductible for tax purposes	**3,589**	1,966
Tax effect arising from income not subject to tax (1)	**(12,395)**	(10,282)
Income tax adjustment for prior years	**(776)**	105
Income tax expense	**11,902**	12,574

(1) The income not subject to tax are mainly generated by PRC treasury bonds and municipal government bonds.

14 BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net profit attributable to shareholders of the Bank by the weighted average number of ordinary shares in issue during the period.

	Year ended 31 December	
	2018	2017
Net profit attributable to shareholders of the Bank	**73,630**	70,223
Less: Net profit attributable to preference shareholders of the Bank	**(2,618)**	(2,693)
Net profit attributable to ordinary shareholders of the Bank	**71,012**	67,530
Weighted average number of ordinary shares in issue (expressed in millions) at the end of the period	**74,263**	74,263
Basic and diluted earnings per share (expressed in RMB per share)	**0.96**	0.91

The Bank issued non-cumulative preference shares on 29 July 2015 and 2 September 2016 under the terms and conditions as detailed in Note 33 Preference Shares. For the purpose of calculating basic earnings per share, a cash dividend of RMB2,618 million on non-cumulative preference shares declared for the period was deducted from the amounts attributable to ordinary shareholders of the Bank. The conversion feature of preference shares is considered to fall within contingently issuable ordinary shares. The triggering events of conversion did not occur for the year ended 31 December 2018, therefore the conversion feature of preference shares has no effect on the basic and diluted earnings per share calculation.

15 CASH AND BALANCES WITH CENTRAL BANKS

	As at 31 December 2018	As at 31 December 2017
Cash	**14,665**	16,623
Mandatory reserve deposits	**703,649**	802,012
Excess reserve deposits	**111,759**	112,534
Balances with central banks other than reserve deposits	**9,727**	7,402
Interest receivable of balance with central banks	**371**	N.A.
	840,171	938,571

(All amounts expressed in millions of RMB unless otherwise stated)

15 CASH AND BALANCES WITH CENTRAL BANKS *(Continued)*

The Group is required to place mandatory reserves with PBOC and other overseas regulatory bodies. The mandatory reserves are calculated based on the eligible deposits from customers. Such mandatory reserves are not available for use by the Group in its day-to-day operations.

	As at 31 December 2018	As at 31 December 2017
Domestic mandatory reserve rate for deposits denominated in RMB	**14.00**	16.50
Domestic mandatory reserve rate for deposits denominated in foreign currencies	**5.00**	5.00

16 DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 31 December 2018	As at 31 December 2017
Due from banks and other financial institutions		
– Banks operating in Mainland China	**104,270**	109,025
– Banks operating outside Mainland China	**58,697**	35,400
Interest receivable of due from banks and financial institutions	**933**	N.A.
Less: ECL allowance	**(254)**	N.A.
Financial assets held under resale agreements		
– Securities	**116,871**	57,051
– Bills	**2,846**	10,226
Interest receivable of financial assets held under resale agreements	**92**	N.A.
Less: ECL allowance	**(166)**	N.A.
Placements with and loans to banks		
– Banks operating in Mainland China	**194,008**	194,348
– Banks operating outside Mainland China	**47,437**	98,342
Placements with and loans to other financial institutions		
– Placements with and loans to other financial institutions in Mainland China	**275,020**	274,307
– Placements with and loans to other financial institutions outside Mainland China	**42,898**	3,769
Interest receivable of placements with and loans to banks and other financial institutions	**6,749**	N.A.
Less: ECL allowance	**(1,334)**	N.A.
	848,067	782,468

As at 31 December 2018, placements with and financial assets held under resale agreements with wealth management products that were sponsored and not consolidated by the Group amounted to RMB96,473 million (31 December 2017: RMB110,662 million). These transactions were carried out at market prices and the Group were not contractually obliged to make such arrangements. The maximum exposure to loss of those transactions approximated the carrying amount of the placements. The average exposure of the above transactions during the year ended 31 December 2018 was RMB54,670 million and the weighted average outstanding period was 6.01 days (The average exposure during 2017 was RMB51,429 million and the weighted average outstanding period was 4.13 days). As at the approval date of these consolidated financial statements, the placements, loans and financial assets under resale agreements had matured and the amounts had been fully repaid.

(All amounts expressed in millions of RMB unless otherwise stated)

17 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 31 December 2018
Government bonds	
– Listed in Hong Kong	1,740
– Listed outside Hong Kong (a)	2,989
– Unlisted	776
Other debt securities	
– Listed in Hong Kong	12,957
– Listed outside Hong Kong (a)	108,006
– Unlisted – corporate entities	3,606
– Unlisted – public sector entities	–
– Unlisted – banks	1,193
Equity securities	
– Listed in Hong Kong	1
– Listed outside Hong Kong	1,099
– Unlisted	9,232
Fund investments and other asset management products	
– Listed in Hong Kong	–
– Listed outside Hong Kong	–
– Unlisted	187,554
Precious metal contracts	37,232
Loans to banks and other financial institutions	8,393
Interest receivable of financial investments – financial assets at fair value through profit or loss	1,608
Total	376,386

Debt securities at fair value through profit or loss are analysed by issuer as follows:

	As at 31 December 2018
– Banks and other financial institutions	91,198
– Corporate entities	33,481
– Governments and central banks	5,561
– Public sector entities	2,588
	132,828

(a) Debt securities traded on the China domestic inter-bank bond market are included in “Listed outside Hong Kong”.

(All amounts expressed in millions of RMB unless otherwise stated)

17 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS *(Continued)*

	As at 31 December 2017
Government bonds	
– Listed in Hong Kong	2,414
– Listed outside Hong Kong (a)	7,062
– Unlisted	2,606
Other debt securities	
– Listed in Hong Kong	6,178
– Listed outside Hong Kong (a)	69,894
– Unlisted – corporate entities	–
– Unlisted – public sector entities	–
– Unlisted – banks	776
Equity securities	
– Listed in Hong Kong	10
– Listed outside Hong Kong	–
– Unlisted	290
Fund investments and other asset management products	
– Listed in Hong Kong	–
– Listed outside Hong Kong	5
– Unlisted	83,867
Precious metal contracts	41,198
Loans to banks and other financial institutions	12,730
Total	227,030

Bonds at fair value through profit or loss are analysed by issuer as follows:

	As at 31 December 2017
– Banks and other financial institutions	45,980
– Corporate entities	28,653
– Governments and central banks	12,082
– Public sector entities	2,215
	88,930

The financial assets at fair value through profit or loss include financial assets held for trading and financial assets that cannot pass the ‘SPPI test’.

(All amounts expressed in millions of RMB unless otherwise stated)

18 DERIVATIVE FINANCIAL INSTRUMENTS

The following derivative instruments are utilised by the Group for trading or hedging purposes:

Currency forwards are contracts between two parties to buy or sell certain currencies at a specified future date at a predetermined price. The party agreeing to buy the underlying currency in the future assumes a long position, and the party agreeing to sell the currency in the future assumes a short position. The price agreed upon is called the delivery price, which is equal to the forward price at the time the contract is entered into.

Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (for example, fixed rate for floating rate) or a combination of all these (i.e. cross-currency interest rate swaps). The Group's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Group assesses counterparties using the same techniques as for its lending activities.

Currency and interest rate options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) on or before a set date or during a set period, a specific amount of a foreign currency at a predetermined price or to receive an interest payment based on a variable interest rate and pay a fixed interest rate or vice versa. The seller receives a premium from the purchaser in consideration for assuming foreign exchange or interest rate risk. Options may be either exchange-traded or negotiated between the Group and a customer (over the counter market).

The notional amounts of certain types of financial instruments provide a reference of the amounts 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 price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time. The fair values of derivative instruments held are set out in the following tables.

	Contractual/notional	**Fair values**	
	amount	**Assets**	**Liabilities**
As at 31 December 2018			
Foreign exchange and commodity contracts	**2,541,252**	**26,441**	**(25,640)**
Interest rate contracts and others	**831,692**	**4,289**	**(2,465)**
Total amount of derivative instruments recognised	**3,372,944**	**30,730**	**(28,105)**

	Contractual/notional	Fair values	
	amount	Assets	Liabilities
As at 31 December 2017			
Foreign exchange and commodity contracts	2,472,503	31,655	(31,819)
Interest rate contracts and others	721,892	2,352	(1,525)
Total amount of derivative instruments recognised	3,194,395	34,007	(33,344)

The tables above provide a breakdown of the contractual or notional amounts and the fair values of the Group's derivative financial instruments outstanding at year end. These instruments, comprising foreign exchange and interest rate derivatives allow the Group and its customers to transfer, modify or reduce their foreign exchange and interest rate risks.

The Group undertakes its transactions in foreign exchange and interest rates contracts with other financial institutions and customers. Management has established limits for these contracts based on counterpart types, industry sectors and countries. Related risks are regularly monitored and controlled by management.

(All amounts expressed in millions of RMB unless otherwise stated)

18 DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

Notional amounts of derivative financial instruments by original currency:

	As at 31 December 2018	As at 31 December 2017
RMB	**1,785,452**	1,518,866
USD	**1,384,347**	1,343,072
HKD	**129,328**	200,543
Others	**73,817**	131,914
Total	**3,372,944**	3,194,395

Hedge accounting

The Group applies hedge accounting mainly in two separate hedging strategies, as follows:

Interest rate risk on fixed rate financial assets and financial liabilities and foreign exchange risk on foreign currency debt (fair value hedge)

The Group holds a portfolio of long-term fixed rate financial assets and financial liabilities and therefore is exposed to changes in fair value due to movements in market rates. The Group manages this risk exposure by entering into pay fixed/receive floating interest rate swaps.

Only the interest rate risk element is hedged and therefore other risks, such as credit risk, are managed but not hedged by the Group. The interest rate risk component is determined as the change in fair value of the long-term fixed rate financial assets and financial liabilities arising solely from changes in the benchmark rate of interest. Such changes are usually the largest component of the overall change in fair value.

This strategy is designated as a fair value hedge and its effectiveness is assessed by comparing changes in the fair value of the financial assets or financial liabilities attributable to changes in the benchmark rate of interest with changes in the fair value of the interest rate swaps.

The Group obtain effective sources of funding from international markets. As part of this process, the oversea branches assume significant foreign currency exposure, principally USD. The foreign currency risk component is then managed and mitigated by the use of foreign exchange contracts, which exchange placements from banks issued in the foreign currency for financial liabilities in functional currency.

The foreign currency risk component is determined as the change in cash flows of the foreign currency debt arising solely from changes in the relevant foreign currency forward exchange rate. Such changes constitute a significant component of the overall changes in fair values of the instrument.

The effectiveness of this strategy is assessed by comparing the changes in fair value of the foreign exchange contracts or interest rate contracts with changes in fair value of the hedged liabilities attributable to the hedged risk.

The Group establishes the hedging ratio by matching the notional of the derivatives with the principal of the portfolio being hedged. Following reasons could cause ineffectiveness:

1) Differences between the expected and actual holding amount, as the Group hedges to the expected maturity date but may sell the bond investment according to trading strategies;

2) The credit risk of the counterparty impacts the fair value of interest rate swaps and hedged items.

18 DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

Hedge accounting *(Continued)*

Foreign exchange risk on foreign currency debt and interest rate risk on floating rate debt (cash flow hedge)
The Group obtain effective sources of funding from international markets. As part of this process, the oversea branches assume significant foreign currency exposure, principally functional currency of branches in USD, HKD, CNY and GBP. The foreign currency risk component is then managed and mitigated by the use of foreign exchange contracts, which exchange financial liabilities such as placements from banks and certificates of deposits issued in the foreign currency for financial liabilities in AUD, USD and GBP. These instruments are entered into to match the maturity profile of estimated repayments of the Group's debt instruments. This hedging strategy is applied to the portion of the exposure that is not naturally offset against matching asset positions held by the Group in financial investments also denominated in foreign currencies.

The foreign currency risk component is determined as the change in cash flows of the foreign currency debt arising solely from changes in the relevant foreign currency forward exchange rate. Such changes constitute a significant component of the overall changes in cash flows of the instrument.

The Group bears financial liabilities on floating interest rate and therefore is exposed to changes in fair value due to movements in market rates. The Group manages this risk exposure by entering into pay fixed/receive floating interest rate swaps. Only the interest rate risk element is hedged and therefore other risks are managed but not hedged by the Group. The interest rate risk component is determined as the change in fair value of future cash flows due to changes in market interest rates.

The effectiveness of this strategy is assessed by comparing the changes in fair value of the foreign exchange contracts or interest rate contracts with changes in fair value of the hedged liabilities attributable to the hedged risk or changes in net present value of future cash flows using the hypothetical derivative method.

The Group establishes the hedging ratio by matching the notional of the derivatives with the principal of the portfolio being hedged. Following reasons could cause ineffectiveness:

1) Differences between the expected and actual volume of prepayments, as the Group hedges to the expected repayment date taking into account expected prepayments based on past experience;

2) The credit risk of the counterparty impacts the fair value of interest rate swaps and on hedged items.

(All amounts expressed in millions of RMB unless otherwise stated)

18 DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

Hedge accounting *(Continued)*

a) The following table sets out the maturity profile and average exchange rate/interest rate of the hedging instruments used in the Group's non-dynamic hedging strategies:

	Maturity					
	Up to one month	One to three months	Three months to one year	One year to five years	More than five years	Total
As at 31 December 2018						
Fair value hedge						
Foreign exchange						
Foreign exchange contract in USD						
Notional	2	2	–	–	–	4
Average exchange rate of USD/BRL	3.71	3.76	–	–	–	
Interest rate contract						
Notional (i)	2	4	236	183	–	425
Average fixed interest rate in BRL	3.70%	2.63%	3.75%	4.18%	–	
Interest rate						
Interest rate contract						
Notional	70	–	6,266	44,609	19,760	70,705
Average fixed interest rate in USD and other currencies	3.21%	–	2.65%	3.31%	3.66%	
Cash flow hedge						
Foreign exchange						
Foreign exchange contract in CNY						
Notional	3,022	931	6,353	–	–	10,306
Average exchange rate of USD/CNY	6.84	6.85	6.82	–	–	
Average exchange rate of AUD/CNY	4.93	5.04	4.94	–	–	
Foreign exchange contract in HKD (ii)						
Notional	594	2,809	2,474	1,365	–	7,242
Average fixed interest rate	–	–	–	2.68%	–	
Average exchange rate of USD/HKD	7.80	7.79	7.81	–	–	
Average exchange rate of AUD/HKD	–	5.95	5.87	–	–	
Average exchange rate of GBP/HKD	–	–	–	10.40	–	
Foreign exchange contract in USD (ii)						
Notional	961	2,862	3,137	–	–	6,960
Average fixed interest rate	3.36%	3.50%	3.46%	–	–	
Average exchange rate of USD/AUD	1.35	–	1.38	–	–	
Average exchange rate of GBP/USD	–	–	1.43	–	–	
Average exchange rate of USD/NZD	–	1.47	–	–	–	
Average exchange rate of USD/BRL	–	3.92	–	–	–	
Average exchange rate of USD/CNY	6.49	6.33	6.57	–	–	
Foreign exchange contract in GBP						
Notional	–	–	608	–	–	608
Average exchange rate of GBP/USD	–	–	1.43	–	–	
Average exchange rate of GBP/AUD	–	–	1.86	–	–	
Interest rate						
Interest rate contract						
Notional	–	–	–	471	1,348	1,819
Average fixed interest rate in USD	–	–	–	4.74%	4.67%	

(i): Interest rate contract refers to a compound tool with interest rate as the underlying asset
(ii): Foreign exchange contracts include currency swap contracts and cross-currency swap contracts

(All amounts expressed in millions of RMB unless otherwise stated)

18 DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

Hedge accounting *(Continued)*

b) The following table contains details of the hedging instruments used in the Group's hedging strategies:

	Notional	Carrying amount Assets	Carrying amount Liabilities	Line item on balance sheet	Fair value changes of the hedging instruments
As at 31 December 2018					
Fair value hedge					
Foreign exchange					
Exchange Rate Instruments	4	–	–	Derivative financial assets/ liabilities	1
Interest rate contract	425	14	(1)	Derivative financial assets/ liabilities	65
Interest rate					
Interest rate contract	70,705	1,108	(352)	Derivative financial assets/ liabilities	(94)
Cash flow hedge					
Foreign exchange					
Foreign exchange contract	25,116	451	(201)	Derivative financial assets/ liabilities	122
Interest rate					
Interest rate contract	1,819	28	–	Derivative financial assets/ liabilities	25

c) The following table contains details of the hedged exposures covered by the Group's hedging strategies:

	Carrying amount of hedged item Assets	Carrying amount of hedged item Liabilities	Accumulated amount of fair value adjustments on the hedged item Assets	Accumulated amount of fair value adjustments on the hedged item Liabilities	Line item on balance sheet	Fair value changes of the hedged items	Cash flow hedge reserves
As at 31 December 2018							
Fair value hedge							
Foreign exchange							
Placement from banks	–	(705)	–	(124)	Due to banks and other financial institutions	(116)	N.A.
Interest rate							
Debt instruments	67,742	–	(722)	–	Financial investments – debt instruments at fair value through other comprehensive income	51	N.A.
Deposits from banks and other financial institutions	–	(663)	–	23	Due to banks and other financial institutions	8	N.A.
Loans and advances to customers	2,134	–	(19)	–	Loans and advances to customers	15	N.A.
Certificates of deposits issued	–	(541)	–	5	Certificates of deposits issued	(39)	N.A.
Cash flow hedge							
Foreign exchange	N.A.	N.A.	N.A.	N.A.	N.A	(122)	3
Interest rate	N.A.	N.A.	N.A.	N.A.	N.A	(25)	21

(All amounts expressed in millions of RMB unless otherwise stated)

18 DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

Hedge accounting *(Continued)*

d) The following table contains information regarding the effectiveness of the hedging relationships designated by the Group, as well as the impacts on profit or loss and other comprehensive income:

				Amounts reclassified from reserves to profit and loss due to following reasons		
	Gains/(losses) recognised in other comprehensive income	Hedge ineffectiveness recognised in profit and loss	Profit and loss line item that includes hedge ineffectiveness	Hedged cash flows no longer occurred	Hedged item affected profit and loss	Profit and loss line item that includes reclassified amount
Year ended 31 December 2018						
Fair value hedge						
Foreign exchange	N.A.	(50)	Net gains arising from trading activities	N.A.	N.A.	N.A.
Interest rate	N.A.	(59)	Net gains arising from trading activities	N.A.	N.A.	N.A.
Cash flow hedge						
Foreign exchange	122	–	Net gains arising from trading activities	(11)	(113)	Net gains arising from trading activities
Interest rate	25	–	Net gains arising from trading activities	–	–	Net gains arising from trading activities

The derivative financial instruments include those designated as hedging instruments by the Group in 2017 as follows:

	Contractual/notional	Fair values	
As at 31 December 2017	amount	Assets	Liabilities
Derivative financial instruments designated as hedging instruments in fair value hedges	73,235	927	(129)
Derivative financial instruments designated as hedging instruments in cash flow hedges	24,414	401	(228)
Total	97,649	1,328	(357)

(a) Fair value hedge

The following table shows the profit and loss effects of the fair value hedges:

	As at 31 December 2017
Net gains on hedging instruments	256
Net losses on hedged items attributable to the hedge risk	(348)
Net losses from fair value hedges	(92)

(All amounts expressed in millions of RMB unless otherwise stated)

18 DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

Hedge accounting *(Continued)*

(b) Cash flow hedge

For the year ended 31 December 2017, the Group's profit from the cash flow hedge of RMB23 million was recognised in other comprehensive income and the gain and loss arising from the ineffective portion of cash flow hedge was immaterial for the year ended 31 December 2017. There were no transactions for which cash flow hedge accounting had to be ceased for the year ended 31 December 2017, as a result of the highly probable cash flows no longer being expected to occur.

19 LOANS AND ADVANCES TO CUSTOMERS

19.1 Loans and advances to customers

	As at 31 December 2018	As at 31 December 2017
Loans and advances to customers		
– Carried at amortised cost	**4,669,550**	4,579,256
– Carried at FVOCI	**184,184**	N.A.
– Carried at FVPL	**494**	N.A.
Less: ECL allowance	**(123,861)**	(106,001)
Interest receivable of loans and advances to customers	**14,195**	N.A.
Less: allowance for impairment of interest receivable of loans and advances to customers	**(2,190)**	N.A.
	4,742,372	4,473,255

19.2 Movements of gross carrying amount and ECL allowance

Movements of gross amount – Corporate Loan at amortised cost:

	Stage 1	**Stage 2**	**Stage 3**	
	12-month ECL	**Lifetime ECL**	**Lifetime ECL**	**Total**
Gross carrying amount as at 1 January 2018	**2,791,561**	**150,487**	**62,557**	**3,004,605**
Addition, net	**154,030**	**(87,260)**	**(5,225)**	**61,515**
Written-offs and disposals	**–**	**(527)**	**(38,461)**	**(38,988)**
Transfers:	**(103,366)**	**64,901**	**38,465**	**–**
Transfer between Stage 1 and Stage 2, net	***(88,892)***	***88,892***	***–***	***–***
Transfer between Stage 1 and Stage 3, net	***(14,474)***	***–***	***14,474***	***–***
Transfer between Stage 2 and Stage 3, net	***–***	***(23,991)***	***23,991***	***–***
Modification of contractual cash flows of financial assets	**18**	**148**	**(212)**	**(46)**
Exchange differences	**6,713**	**71**	**53**	**6,837**
Gross carrying amount as at 31 December 2018	**2,848,956**	**127,820**	**57,147**	**3,033,923**

(All amounts expressed in millions of RMB unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

19.2 Movements of gross carrying amount and ECL allowance *(Continued)*

Movements of ECL allowance – Corporate Loan at amortised cost:

	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
Loss allowance as at 1 January 2018	25,027	50,159	36,406	111,592
Addition (Reversal)	(2,123)	1,320	30,879	30,076
Written-offs and disposals	–	(527)	(38,461)	(38,988)
Transfers:	381	(8,488)	8,107	–
Transfer between Stage 1 and Stage 2, net	*741*	*(741)*	–	–
Transfer between Stage 1 and Stage 3, net	*(360)*	–	*360*	–
Transfer between Stage 2 and Stage 3, net	–	*(7,747)*	*7,747*	–
Recoveries of loans written-off in previous years	–	–	1,062	1,062
Unwind of discount	–	–	(1,447)	(1,447)
Exchange differences	38	39	31	108
Loss allowance as at 31 December 2018	23,323	42,503	36,577	102,403

Movements of gross carrying amount – Individual Loan at amortised cost:

	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
Gross carrying amount as at 1 January 2018	1,388,170	5,721	15,991	1,409,882
Addition, net	240,290	(1,515)	(2,902)	235,873
Written-offs	–	–	(11,180)	(11,180)
Transfers:	(17,027)	3,635	13,392	–
Transfer between Stage 1 and Stage 2, net	*(5,541)*	*5,541*	–	–
Transfer between Stage 1 and Stage 3, net	*(11,486)*	–	*11,486*	–
Transfer between Stage 2 and Stage 3, net	–	*(1,906)*	*1,906*	–
Exchange differences	982	31	39	1,052
Gross carrying amount as at 31 December 2018	1,612,415	7,872	15,340	1,635,627

(All amounts expressed in millions of RMB unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

19.2 Movements of gross carrying amount and ECL allowance *(Continued)*

Movements of ECL allowance – Individual Loan at amortised cost:

	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
Loss allowance as at 1 January 2018	6,506	1,395	11,626	19,527
Addition (Reversal)	730	1,450	10,557	12,737
Written-offs	–	–	(11,180)	(11,180)
Transfers:	460	(545)	85	–
Transfer between Stage 1 and Stage 2, net	*272*	*(272)*	–	–
Transfer between Stage 1 and Stage 3, net	*188*	–	*(188)*	–
Transfer between Stage 2 and Stage 3, net	–	*(273)*	*273*	–
Recoveries of loans written-off in previous years	–	–	517	517
Unwind of discount	–	–	(171)	(171)
Exchange differences	14	2	12	28
Loss allowance as at 31 December 2018	7,710	2,302	11,446	21,458

Movements of gross carrying amount – Loans and advances to customers at fair value through other comprehensive income

	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
Gross carrying amount as at 1 January 2018	156,612	7,184	209	164,005
Addition, net	28,129	(7,712)	(44)	20,373
Transfers:	(7,029)	6,980	49	–
Transfer between Stage 1 and Stage 2, net	*(6,980)*	*6,980*	–	–
Transfer between Stage 1 and Stage 3, net	*(49)*	–	*49*	–
Changes in the fair value	1,162	279	44	1,485
Gross carrying amount as at 31 December 2018	178,874	6,731	258	185,863

(All amounts expressed in millions of RMB unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

19.2 Movements of gross carrying amount and ECL allowance *(Continued)*

Movements of ECL allowance – Loans and advances to customers at fair value through other comprehensive income

	Stage 1	Stage 2	Stage 3	
	12-month ECL	**Lifetime ECL**	**Lifetime ECL**	**Total**
Loss allowance as at 1 January 2018	**1,587**	**278**	**131**	**1,996**
Addition (Reversal)	**(138)**	**(279)**	**100**	**(317)**
Transfers:	**(286)**	**284**	**2**	**–**
Transfer between Stage 1 and Stage 2, net	*(284)*	*284*	*–*	*–*
Transfer between Stage 1 and Stage 3, net	*(2)*	*–*	*2*	*–*
Loss allowance as at 31 December 2018	**1,163**	**283**	**233**	**1,679**

	As at 31 December 2017		
	Collectively assessed	Individually assessed	Total
Balance at the beginning of the period	66,629	30,503	97,132
Net impairment allowances for loans charged to profit or loss	14,909	15,252	30,161
– Impairment allowances for loans	*14,909*	*16,849*	*31,758*
– Reversal of impairment allowances for loans	*–*	*(1,597)*	*(1,597)*
Recoveries of loans written-off in previous periods	–	917	917
Unwind of discount on allowances during the year	–	(1,812)	(1,812)
Loans written off during the year as uncollectible	–	(19,554)	(19,554)
Other transfer (out)/in	(10,596)	10,178	(418)
Exchange differences	(275)	(150)	(425)
Balance at the end of the period	70,667	35,334	106,001

	As at 31 December 2017		
	Corporate Loan	Individual Loan	Total
Balance at the beginning of the period	78,263	18,869	97,132
Net impairment allowances for loans charged to profit or loss	27,597	2,564	30,161
– Impairment allowances for loans	*28,910*	*2,848*	*31,758*
– Reversal of impairment allowances for loans	*(1,313)*	*(284)*	*(1,597)*
Recoveries of loans written-off in previous years	436	481	917
Unwind of discount on allowances during the year	(1,589)	(223)	(1,812)
Loans written off during the period as uncollectible	(17,191)	(2,363)	(19,554)
Other transfer (out)/in	–	(418)	(418)
Exchange differences	(348)	(77)	(425)
Balance at the end of the period	87,168	18,833	106,001

(All amounts expressed in millions of RMB unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

19.3 Loans and advances to customers analysed by security type

	As at 31 December 2018	As at 31 December 2017
Unsecured loans	**1,554,652**	1,437,854
Guaranteed loans	**895,738**	908,119
Collateralised and other secured loans	**2,403,838**	2,233,283
Including: Loans secured by collateral	***1,732,818***	*1,631,954*
Pledged loans	***671,020***	*601,329*
Total	**4,854,228**	4,579,256

20 FINANCIAL INVESTMENTS

	As at 31 December 2018
Financial investments – debt instruments at amortised cost	
– Listed in Hong Kong	**6,007**
– Listed outside Hong Kong	**1,759,249**
– Unlisted	**209,518**
Financial investments – interest receivable of debt instruments at amortised cost	**29,100**
Less: ECL allowance	**(3,369)**
Financial investments – debt instruments at amortised cost (net)	**2,000,505**
Financial investments – debt instruments at fair value through other comprehensive income	
– Listed in Hong Kong	**106,465**
– Listed outside Hong Kong (a)	**236,079**
– Unlisted	**91,209**
Financial investments – interest receivable of debt instruments at FVOCI	**3,877**
Total	**437,630**
Financial investments – equity investments at fair value through other comprehensive income	
– Listed in Hong Kong	**991**
– Listed outside Hong Kong	**1,423**
– Unlisted	**4,974**
Total	**7,388**

(All amounts expressed in millions of RMB unless otherwise stated)

20 FINANCIAL INVESTMENTS *(Continued)*

	As at 31 December 2017
Available-for-sale debt securities – at fair value	
– Listed in Hong Kong	66,827
– Listed outside Hong Kong (a)	222,352
– Unlisted	104,569
Available-for-sale debt securities	393,748
Available-for-sale equity securities – at fair value	
– Listed in Hong Kong	1,263
– Listed outside Hong Kong	1,895
– Unlisted	2,649
Available-for-sale equity securities	5,807
Available-for-sale fund investments and others – at fair value	
– Listed in Hong Kong	–
– Listed outside Hong Kong	247
– Unlisted	2,336
Available-for-sale fund investments and others	2,583
Total available-for-sale financial assets	402,138
Held-to-maturity debt securities – at amortised cost	
– Listed in Hong Kong	2,158
– Listed outside Hong Kong (a)	1,506,878
– Unlisted	2,694
Impairment allowance	(355)
Held-to-maturity investments (net)	1,511,375
Loans and receivables – at amortised cost	
– Listed outside Hong Kong	109,888
– Unlisted	280,453
Less: Impairment allowance	(2,608)
Loans and receivables (net)	387,733

(a) Debt securities traded on the China domestic inter-bank bond market are included in “Listed outside Hong Kong”.

(All amounts expressed in millions of RMB unless otherwise stated)

20 FINANCIAL INVESTMENTS *(Continued)*

The movements in the gross carrying amount of financial assets are summarised as follows:

	Financial investments – debt instruments at fair value through other comprehensive income			Financial investments – debt instruments at amortised cost			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Gross carrying amount as at 1 January 2018	369,756	–	454	1,886,559	54	576	2,257,399
New financial assets originated or purchased	283,626	–	–	406,039	–	–	689,665
Financial assets derecognised during the period other than write-offs	(221,948)	–	(8)	(319,166)	(54)	(16)	(541,192)
Write-offs	–	–	–	–	–	–	–
Transfers:							
Transfer between Stage 1 and Stage 2, net	–	–	–	–	–	–	–
Transfer between Stage 1 and Stage 3, net	–	–	–	*(525)*	–	*525*	–
Transfer between Stage 2 and Stage 3, net	–	–	–	–	–	–	–
Modification of contractual cash flows of financial assets	–	–	–	–	–	–	–
Changes in interest accrual	3,877	–	–	29,100	–	–	32,977
Foreign exchange and other movements	3,037	–	21	782	–	–	3,840
Gross carrying amount as at 31 December 2018	438,348	–	467	2,002,789	–	1,085	2,442,689

The movements in ECL of debt instruments are summarised as follows:

	Financial investments – debt instruments at fair value through other comprehensive income			Financial investments – debt instruments at amortised cost			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
ECL allowance							
As at 1 January 2018	438	–	454	3,246	10	475	4,623
Additions	756	–	–	1,170	–	–	1,926
Reversal	(483)	–	(8)	(1,506)	(10)	(16)	(2,023)
Transfers in	–	–	–	–	–	–	–
Disposals	–	–	–	–	–	–	–
Written-offs	–	–	–	–	–	–	–
Recovery after written-off	–	–	–	–	–	–	–
Transfers:	–	–	–	(26)	–	26	–
Transfer between Stage 1 and Stage 2, net	–	–	–	–	–	–	–
Transfer between Stage 1 and Stage 3, net	–	–	–	*(26)*	–	*26*	–
Transfer between Stage 2 and Stage 3, net	–	–	–	–	–	–	–
Modification of contractual cash flows of financial assets	–	–	–	–	–	–	–
Exchange differences	7	–	21	–	–	–	28
As at 31 December 2018	718	–	467	2,884	–	485	4,554

(All amounts expressed in millions of RMB unless otherwise stated)

20 FINANCIAL INVESTMENTS *(Continued)*

	Loans and receivables	Financial investments – available-for-sale	Financial investments – held-to-maturity	Total
Allowance for impairment losses				
As at 1 January 2017	(2,803)	(1,175)	(350)	(4,328)
Provision for impairment	(262)	(438)	(10)	(710)
Reversal of impairment allowances	–	–	–	–
Transfers in	457	26	6	489
Disposals	–	43	–	43
Written-offs	–	2	–	2
Recovery after written-offs	–	(26)	–	(26)
Exchange differences	–	31	(1)	30
As at 31 December 2017	(2,608)	(1,537)	(355)	(4,500)

Debt securities analysed by issuer are as follows:

	As at 31 December 2018	As at 31 December 2017
Financial Investments – debt instruments at FVOCI		
– Governments and central banks	**66,621**	N.A.
– Public sector entities	**3,699**	N.A.
– Banks and other financial institutions	**312,339**	N.A.
– Corporate entities	**54,971**	N.A.
Total	**437,630**	N.A.
Available-for-sale financial assets		
– Banks and other financial institutions	**N.A.**	302,418
– Corporate entities	**N.A.**	49,196
– Governments and central banks	**N.A.**	37,783
– Public sector entities	**N.A.**	4,351
Total	**N.A.**	393,748
Financial investment – debt instruments at amortised cost		
– Governments and central banks	**1,439,657**	N.A.
– Public sector entities	**28,364**	N.A.
– Banks and other financial institutions	**292,631**	N.A.
– Corporate entities	**38,411**	N.A.
Financial investment – debt instruments at amortised cost (net)	**1,799,063**	N.A.
Held-to-maturity investments		
– Governments and central banks	**N.A.**	1,152,115
– Banks and other financial institutions	**N.A.**	280,343
– Corporate entities	**N.A.**	49,820
– Public sector entities	**N.A.**	29,097
Held-to-maturity investments (net)	**N.A.**	1,511,375
Loans and receivables		
– Governments and central banks	**N.A.**	104,630
– Banks and other financial institutions	**N.A.**	12,646
Loans and receivables (net)	**N.A.**	117,276

(All amounts expressed in millions of RMB unless otherwise stated)

20 FINANCIAL INVESTMENTS *(Continued)*

The certificates of deposit held included in financial investments are analysed as follows:

	As at 31 December 2018	As at 31 December 2017
Financial investment at FVPL		
– Listed in Hong Kong	1,047	N.A.
– Listed outside Hong Kong	44,682	N.A.
– Unlisted	44,354	N.A.
	90,083	N.A.
Available-for-sale financial assets (at fair value)		
– Listed in Hong Kong	N.A.	795
– Listed outside Hong Kong	N.A.	11,863
– Unlisted	N.A.	40,603
	N.A.	53,261

The maturity profile of certificates of deposits in the inter-bank market held by the remaining period as at period end to the contractual maturity dates are summarised as follows:

	As at 31 December 2018	As at 31 December 2017
Within 3 months	14,407	29,686
3 months to 12 months	58,075	16,314
1 year to 5 years	17,072	7,261
Over 5 years	529	–
	90,083	53,261

(All amounts expressed in millions of RMB unless otherwise stated)

21 PRINCIPAL SUBSIDIARIES

21.1 Details of the principal subsidiaries

Name of subsidiaries	Place of incorporation and operation	Date of incorporation	Issued and fully paid up share capital	Proportion of ownership interest and voting power held by the Group (%)	Principal activities
Bank of Communications Financial Leasing Co., Ltd.	Mainland China	20 Dec. 2007	RMB8,500,000,000	100	Financial leasing
Bank of Communications International Trust Co., Ltd.	Mainland China	18 Oct. 2007	RMB5,764,705,882	85	Trust investment
Bank of Communications Schroder Fund Management Co., Ltd.	Mainland China	4 Aug. 2005	RMB200,000,000	65	Fund management
BoCommlife Insurance Company Limited	Mainland China	27 Jan. 2010	RMB5,100,000,000	62.50	Life Insurance
BoCom International Holdings Company Limited (formerly known as BoCom Securities Company Limited)	Hong Kong	2 May. 2007	HKD2,734,392,000	73.14	Securities dealing and brokerage
China BoCom Insurance Co., Ltd. (formerly known as China Communications Insurance Company Limited)	Hong Kong	1 Nov. 2000	HKD400,000,000	100	General insurance and reinsurance
Dayi BoCom Xingmin Rural Bank Ltd.	Mainland China	15 Aug. 2008	RMB60,000,000	61	Commercial banking
Zhejiang Anji BoCom Rural Bank Ltd.	Mainland China	18 Mar. 2010	RMB180,000,000	51	Commercial banking
Xinjiang Shihezi BoCom Rural Bank Company Ltd.	Mainland China	13 Apr. 2011	RMB150,000,000	51	Commercial banking
Qingdao Laoshan BoCom Rural Bank Company Ltd.	Mainland China	16 Aug. 2012	RMB150,000,000	51	Commercial banking
Bank of Communications (UK) Limited	UK	29 July. 2011	USD1	100	Commercial banking
Bank of Communications (Luxemburg) Limited	Luxembourg	7 May. 2015	EUR100,000,000	100	Commercial banking
BoCom Brazil Holding Company Ltda	Brazil	11 Mar. 2016	BRL501,255,813	100	Investment
BANCO Bocom BBM S.A.	Brazil	29 Jun. 1967	BRL313,686,111	80	Commercial banking
Bank of Communications Financial Assets Investment Co., Ltd.	Mainland China	29 Dec. 2017	RMB10,000,000,000	100	Debt-to-equity swaps
Bank of Communications (Hong Kong) Limited (3)	Hong Kong	29 Jan.2018	HKD17,900,000,000	100	Commercial banking

(1) These subsidiaries incorporated in PRC are all limited liability companies.

As at 31 December 2018, the amount of non-controlling interests of these subsidiaries is insignificant to the Group.

(2) For details of the debt securities issued by subsidiaries, please refer to Note 30.

(3) In 29 January 2018, the Bank set up a wholly-owned subsidiary, Bank of Communications (Hong Kong) Limited, with the initial registered capital of 7.9 billion HKD. On 29 June 2018, the Bank contributed extra 10 billion HKD to its registered capital. As at 31 December 2018, the Bank held 100% of the total capital of Bank of Communications (Hong Kong) Limited.

(All amounts expressed in millions of RMB unless otherwise stated)

21 PRINCIPAL SUBSIDIARIES *(Continued)*

21.2 Changes of principal subsidiaries

(1) In 2018, the Bank increased the capital of BoCommlife Insurance Company Limited by 1.875 billion yuan and got approval by CBIRC on 29 June 2018. As at December 31, 2018, the bank held 62.50% of the total capital of BoCommlife Insurance Company Limited.

(2) The bank reduced the capital of Bank of Communications (UK) Limited by USD99,999,999 to USD1 in December 2018. As at 31 December 2018, the Bank held 100% of Bank of Communications (UK) Limited.

(3) The Bank increased the capital of Bocom Brazil Holding Company Ltda by BRL54,105,601.28 in December 2018. As at 31 December 2018, the Bank and its subsidiaries held 100% of in Bocom Brazil Holding Company Ltda.

21.3 Auditors of subsidiaries

For the year ended 31 December 2018, PricewaterhouseCoppers was the auditor of all principal subsidiaries incorporated in Hong Kong (for the year ended 31 December 2017: PricewaterhouseCoppers).

For the year ended 31 December 2018, PricewaterhouseCoppers ZhongTian Certified Public Accountants LLP was the auditor of all principal subsidiaries incorporated in PRC (for the year ended 31 December 2017: PricewaterhouseCoppers ZhongTian Certified Public Accountants LLP).

For the year ended 31 December 2018, Bank of Communications (UK) Limited was audited by PricewaterhouseCoopers LLP (for the year ended 31 December 2017: PricewaterhouseCoopers LLP).

For the year ended 31 December 2018, Bank of Communications (Luxemburg) Limited was audited by PricewaterhouseCoopers, Société coopérative (for the year ended 31 December 2017: PricewaterhouseCoopers, Société coopérative).

For the year ended 31 December 2018, BoCom Brazil Holding Company Ltda and BANCO Bocom BBM S.A. were audited by PricewaterhouseCoopers LLP(for the year ended 31 December 2017: PricewaterhouseCoopers LLP).

22 INVESTMENTS IN ASSOCIATES AND JOINT VENTURE

	As at 31 December 2018	As at 31 December 2017
Investments in associates		
Investment cost	**2,977**	2,886
Net profit adjusted by the equity method	**666**	439
Changes in other equity	**44**	26
Dividend income	**(42)**	–
Subtotal	**3,645**	3,351
Investments in joint venture	**8**	6
Total	**3,653**	3,357

The Group's investments in associates mainly include the investment in Jiangsu Changshu Rural Commercial Bank Co., Ltd. and Bank of Tibet Co., Ltd.

Jiangsu Changshu Rural Commercial Bank Co., Ltd. was incorporated in Changshu City, Jiangsu Province on 3 December 2001. The registered capital of the entity is RMB2,223 million, and the principal activities of the entity are banking activities.

(All amounts expressed in millions of RMB unless otherwise stated)

22 INVESTMENT IN ASSOCIATES AND JOINT VENTURE *(Continued)*

There are 15 directors at the Board of Directors of Jiangsu Changshu Rural Commercial Bank Co., Ltd., of which 3 directors were nominated by the Group. Accordingly, the Group is able to exert significant influence on such company, so such company is accounted for as associates.

Bank of Tibet Co., Ltd. was incorporated in Tibet Autonomous Region, PRC on 30 December 2011. The registered capital of the entity is RMB3,018 million, and the principal activities of the entity are commercial banking activities.

There are 11 directors at the Board of Directors of Bank of Tibet Co., Ltd., of which 3 directors were nominated by the Group. Accordingly, the Group is able to exert significant influence on such company, so such company is accounted for as associates.

23 PROPERTY AND EQUIPMENT

	Land and buildings	Construction in progress	Equipment	Transportation equipment	Property improvement	Total
Cost						
As at 1 January 2018	58,158	4,286	25,184	82,885	7,961	178,474
Additions	1,367	1,249	2,149	25,745	139	30,649
Transfer in from investment properties	458	–	–	–	–	458
Disposals	(294)	–	(1,810)	(77)	(138)	(2,319)
Construction in progress transfer in/(out)	2,433	(3,076)	–	–	643	–
Other transfers in/(out)	(528)	(52)	–	–	528	(52)
As at 31 December 2018	61,594	2,407	25,523	108,553	9,133	207,210
Accumulated depreciation						
As at 1 January 2018	(15,006)	–	(19,607)	(7,018)	(4,251)	(45,882)
Charge for the year	(1,890)	–	(2,249)	(4,591)	(866)	(9,596)
Transfer in from investment properties	–	–	–	–	–	–
Transfers in/(out)	7	–	–	–	(7)	–
Disposals	29	–	1,568	69	21	1,687
As at 31 December 2018	(16,860)	–	(20,288)	(11,540)	(5,103)	(53,791)
Allowance for impairment losses						
As at 1 January 2018	–	(16)	–	(84)	–	(100)
Provision for impairment	–	–	–	(33)	–	(33)
Decrease	–	–	–	–	–	–
As at 31 December 2018	–	(16)	–	(117)	–	(133)
Net book value						
As at 31 December 2018	44,734	2,391	5,235	96,896	4,030	153,286

(All amounts expressed in millions of RMB unless otherwise stated)

23 PROPERTY AND EQUIPMENT *(Continued)*

	Land and buildings	Construction in progress	Equipment	Transportation equipment	Property improvement	Total
Cost						
As at 1 January 2017	53,391	7,120	25,174	61,627	7,122	154,434
Additions	600	1,799	2,250	22,264	359	27,272
Transfers in from investment properties	674	–	–	–	–	674
Disposals	(419)	(210)	(2,240)	(1,006)	(31)	(3,906)
Construction in progress transfer in	3,912	(4,423)	–	–	511	–
Other transfers in/(out)	–	–	–	–	–	–
As at 31 December 2017	58,158	4,286	25,184	82,885	7,961	178,474
Accumulated depreciation						
As at 1 January 2017	(13,288)	–	(19,066)	(4,072)	(3,562)	(39,988)
Charge for the year	(1,829)	–	(2,613)	(3,489)	(704)	(8,635)
Transfer in from investment properties	–	–	–	–	–	–
Transfers in	–	–	–	–	–	–
Disposals	111	–	2,072	543	15	2,741
As at 31 December 2017	(15,006)	–	(19,607)	(7,018)	(4,251)	(45,882)
Allowance for impairment losses						
As at 1 January 2017	–	(16)	–	(5)	–	(21)
Provision for impairment	–	–	–	(80)	–	(80)
Decrease	–	–	–	1	–	1
As at 31 December 2017	–	(16)	–	(84)	–	(100)
Net book value						
As at 31 December 2017	43,152	4,270	5,577	75,783	3,710	132,492

As at 31 December 2018, the net book value of aircrafts and vessels leased out by the Group under operating lease arrangements was RMB96,623 million (31 December 2017: RMB75,689 million). Among them, the net book value of the mortgaged aircrafts and vessels was RMB59,279 million (31 December 2017: RMB33,029 million).

As at 31 December 2018, the property and equipment with re-registration procedure not completed amounted to RMB203 million (31 December 2017: RMB203 million). However, this registration process does not affect the rights of the Bank to these assets.

(All amounts expressed in millions of RMB unless otherwise stated)

24 DEFERRED INCOME TAX

Deferred income taxes for transactions in PRC are calculated on all temporary differences using an effective tax rate of 25% for the year ended 31 December 2018 (for the year ended 31 December 2017: 25%). Deferred income taxes for transactions in Hong Kong are calculated on all temporary differences using an effective tax rate of 16.5% (for the year ended 31 December 2017: 16.5%).

The movements in the deferred income tax account are as follows:

	Impairment of assets	Provisions	Retirement supplementary pension payable	Change in fair value of available-for-sale financial assets	Change in fair value of financial assets designated at FVOCI	Change in fair value of derivative instruments	Change in fair value of investment properties	Change in fair value of financial assets and liabilities at fair value through profit or loss	Other temporary differences	Total
Balance at 31 December 2017	12,844	110	99	664	–	(163)	(522)	916	1,988	15,936
Impact of adoption of IFRS 9 on opening balance	9,004	–	–	(664)	1,095	–	–	36	–	9,471
Balance at 1 January 2018	21,848	110	99	N.A.	1,095	(163)	(522)	952	1,988	25,407
Recognised in profit or loss	(2,901)	1,406	3	N.A.	–	(243)	(62)	(1,490)	(126)	(3,413)
Recognised in other comprehensive income	–	–	–	N.A.	(611)	(6)	–	–	–	(617)
Balance at 31 December 2018	18,947	1,516	102	N.A.	484	(412)	(584)	(538)	1,862	21,377

	Impairment of assets	Provisions	Retirement supplementary pension payable	Change in fair value of available-for-sale financial assets	Change in fair value of derivative instruments	Change in fair value of investment properties	Change in fair value of financial assets and liabilities at fair value through profit or loss	Other temporary differences	Total
As at 1 January 2017	12,401	109	107	(628)	(644)	(509)	(172)	1,758	12,422
Recognised in profit or loss	443	1	(8)	–	521	(13)	1,088	230	2,262
Recognised in other comprehensive income	–	–	–	1,292	(40)	–	–	–	1,252
Balance at 31 December 2017	12,844	110	99	664	(163)	(522)	916	1,988	15,936

(All amounts expressed in millions of RMB unless otherwise stated)

24 DEFERRED INCOME TAX *(Continued)*

Deferred income tax assets and liabilities are attributable to the following items:

	As at 31 December 2018		As at 31 December 2017	
	Deductible/ (Taxable) temporary differences	Deferred income tax assets/ (liabilities)	Deductible/ (Taxable) temporary differences	Deferred income tax assets/ (liabilities)
Deferred income tax liabilities				
Change in fair value of financial assets designated at FVOCI	(351)	(88)	N.A.	N.A.
Changes in fair value of financial assets and liabilities designated at FVPL	(4,021)	(1,005)	–	–
Changes in fair value of derivative instruments	(30,566)	(7,642)	(34,007)	(8,503)
Change in fair value of investment property	(2,334)	(584)	(2,291)	(522)
Change in fair value of available-for-sale financial assets	N.A.	N.A.	(1,348)	(382)
Other temporary differences	(336)	(84)	(807)	(220)
	(37,608)	(9,403)	(38,453)	(9,627)
Deferred income tax assets				
Impairment of assets	75,789	18,947	51,233	12,844
Retirement supplementary pension payable	408	102	395	99
Provisions	6,063	1,516	449	110
Change in fair value of financial assets and liabilities at FVOCI	1,866	467	3,681	916
Change in fair value of financial assets at FVOCI	2,288	572	N.A.	N.A.
Change in fair value of available-for-sale financial assets	N.A.	N.A.	4,797	1,046
Changes in fair value of derivative instruments	28,921	7,230	33,344	8,340
Other temporary differences	7,782	1,946	7,899	2,208
	123,117	30,780	101,798	25,563
Net deferred income tax assets	85,509	21,377	63,345	15,936

The above net deferred income tax assets are disclosed separately on the statements of financial position based on different taxation authorities:

	As at 31 December 2018	As at 31 December 2017
Deferred income tax assets	21,975	16,456
Deferred income tax liabilities	(598)	(520)

(All amounts expressed in millions of RMB unless otherwise stated)

25 OTHER ASSETS

	As at 31 December 2018	As at 31 December 2017
Interest receivable[1]	**3,849**	54,561
Settlement accounts	**7,562**	24,196
Other receivables and prepayments	**30,050**	20,454
Less: ECL allowance (c)	**(2,152)**	(1,907)
Investment properties (b)	**7,899**	8,217
Land use rights and others	**1,869**	1,834
Intangible assets (a)	**1,309**	1,328
Long-term deferred expenses	**692**	791
Precious metal	**925**	1,031
Foreclosed assets	**824**	906
Goodwill (d)	**437**	453
Refundable deposits	**425**	7,072
Unsettled assets	**33**	33
Others	**15,286**	10,403
	69,008	129,372

Note 1 : The interest receivable account only reflects the interest for relevant financial instructions which is due but not received on balance sheet date.

(a) Intangible assets

	Software
Cost	
As at 1 January 2018	**2,780**
Additions	**270**
Transfers in	**–**
Disposals	**(22)**
As at 31 December 2018	**3,028**
Accumulated amortisation	
As at 1 January 2018	**(1,452)**
Amortisation expense	**(271)**
Transfers in	**–**
Disposals	**4**
As at 31 December 2018	**(1,719)**
Net book value	**1,309**

	Software
Cost	
As at 1 January 2017	2,380
Additions	433
Transfers in	–
Disposals	(33)
As at 31 December 2017	2,780
Accumulated amortisation	
As at 1 January 2017	(1,208)
Amortisation expense	(247)
Transfers in	–
Disposals	3
As at 31 December 2017	(1,452)
Net book value	1,328

(All amounts expressed in millions of RMB unless otherwise stated)

25 OTHER ASSETS *(Continued)*

(b) Investment properties

	Year ended 31 December 2018	Year ended 31 December 2017
Balance at the beginning of the year	**8,217**	8,762
Additions/(Decrease) of the year	**(458)**	(581)
Gains on property revaluation	**117**	192
Exchange differences	**23**	(156)
Balance at the end of the year	**7,899**	8,217

The Group's investment properties are located in active real estate markets. The external appraisers make reasonable estimation of fair value using market prices of the similar properties.

As at 31 December 2018, fair value hierarchies of the investment properties of the Group are as follows:

	Level 1	Level 2	Level 3	Fair value for the year ended 31 December 2018
Commercial property units located in Hong Kong	–	–	1,183	1,183
Commercial property units located outside Hong Kong	–	–	6,716	6,716

The valuation of these investment properties located in Hong Kong as at 31 December 2018 were performed by RHL Appraisal Limited, an independent qualified professional valuer not connected to the Group. Valuation methodologies include "Rental Income Approach" and "Direct Comparison Approach". The inputs to these models mainly include growth rate of rental, capitalisation rate and unit price.

(c) ECL allowance

	As at 1 January 2018 (restated)	Amounts accrued	Reversal	Write-offs	Transfers (in)/out	Exchange differences	As at 31 December 2018
Other receivables and prepayments	(1,940)	(1,574)	499	864	–	(1)	(2,152)
Total	(1,940)	(1,574)	499	864	–	(1)	(2,152)

	As at 1 January 2017	Amounts accrued	Reversal	Write-offs	Transfers (in)/out	Exchange differences	As at 31 December 2017
Other receivables and prepayments	(629)	(1,103)	112	189	(436)	1	(1,866)
Others	(44)	(12)	1	14	–	–	(41)
Total	(673)	(1,115)	113	203	(436)	1	(1,907)

(All amounts expressed in millions of RMB unless otherwise stated)

25 OTHER ASSETS *(Continued)*

(d) Goodwill

	As at 1 January 2018	Addition during the year	Decrease during the year	Exchange differences	As at 31 December 2018
Bank of Communications International Trust Co., Ltd.	**200**	**–**	**–**	**–**	**200**
BoCommLife Insurance Company Limited	**122**	**–**	**–**	**–**	**122**
BANCO Bocom BBM S.A	**131**	**–**	**–**	**(16)**	**115**
Total	**453**	**–**	**–**	**(16)**	**437**

	As at 1 January 2017	Addition during the year	Decrease during the year	Exchange differences	As at 31 December 2017
Bank of Communications International Trust Co., Ltd.	200	–	–	–	200
BoCommLife Insurance Company Limited	122	–	–	–	122
BANCO Bocom BBM S.A	149	–	–	(18)	131
Total	471	–	–	(18)	453

At the end of the year, the Group performed impairment tests on goodwill based on financial forecasts approved by management of the subsidiaries and the adjusted transaction prices of similar types of financial institutions.

As indicated by the impairment tests, goodwill arising from business combinations is not impaired and therefore, no impairment loss is recognised.

(e) Loans to employees

As at 31 December 2018 and 31 December 2017, the Group does not offer any loans to employees for the purpose of enabling the selected employees to acquire the shares of the Bank and its subsidiaries.

26 DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 31 December 2018	As at 31 December 2017
Borrowing from central banks	**511,284**	532,867
Interest payable of borrowing from central banks	**8,854**	N.A.
Deposits from other banks		
– Banks operating in Mainland China	**327,250**	350,499
– Banks operating outside Mainland China	**16,729**	24,385
Deposits from other financial institutions		
– Other financial institutions operating in Mainland China	**724,295**	630,138
– Other financial institutions operating outside Mainland China	**11,851**	25,947
Interest payable of deposits from other financial institutions	**21,199**	N.A.
Placement from banks		
– Banks operating in Mainland China	**131,865**	191,932
– Banks operating outside Mainland China	**260,241**	235,867
Borrowing from other financial institutions		
– Other financial institutions operating in Mainland China	**651**	4,434
– Other financial institutions operating outside Mainland China	**8,083**	12,140
Interest payable of borrowing from other financial institutions	**2,478**	N.A.
Financial assets sold under repurchase agreements		
– Securities	**107,367**	74,270
– Bills	**30,072**	23,713
Interest payable of financial assets sold under repurchase agreements	**74**	N.A.
Total	**2,162,293**	2,106,192

(All amounts expressed in millions of RMB unless otherwise stated)

27 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 31 December 2018	As at 31 December 2017
Certificates of deposit issued	**11,493**	12,654
Financial liabilities related to precious metal contracts	**11,449**	11,825
Short position of securities held for trading	**–**	2,485
Interest payable of financial liabilities at FVPL	**167**	N.A.
Total	**23,109**	26,964

Except for certificates of deposit issued which are designated as at fair value through profit or loss, the financial liabilities at fair value through profit or loss are financial liabilities held for trading.

Financial liabilities designated as fair value through profit or loss

	As at 31 December 2018	As at 31 December 2017
Difference between carrying amount and maturity amount		
Fair values	**11,493**	12,654
Amount payable at maturity	**11,496**	12,638
Total	**(3)**	16

For the year ended 31 December 2018 and the year ended 31 December 2017, there were no significant changes in the fair value of the Group's financial liabilities designated as at fair value through profit or loss that were attributable to the changes in credit risk.

28 DUE TO CUSTOMERS

	As at 31 December 2018	As at 31 December 2017
Corporate demand deposits	**1,748,857**	1,852,676
Corporate time deposits	**2,195,241**	2,003,443
Individual demand deposits	**687,393**	655,559
Individual time deposits	**1,089,095**	1,030,233
Other deposits	**3,903**	3,455
Due to customers	**5,724,489**	5,545,366
Interest payable of due to customers	**68,835**	N.A.
Total	**5,793,324**	5,545,366
Including:		
Deposits pledged as collateral	**297,707**	335,706

29 CERTIFICATES OF DEPOSIT ISSUED

Certificates of deposits issued by the Bank's domestic branches, branches in Macau, Hong Kong, New York, Tokyo, Singapore, Seoul, Sydney, London, Luxembourg, Frankfurt and BANCO Bocom BBM S.A., were measured at amortised cost.

(All amounts expressed in millions of RMB unless otherwise stated)

30 DEBT SECURITIES ISSUED

		As at 31 December 2018	As at 31 December 2017
Carried at amortised cost:			
Subordinated bonds	30.1	**39,450**	39,450
Tier 2 capital bonds	30.2		
The Bank		**70,017**	69,585
Subsidiaries		**1,994**	–
Bonds			
The Bank	30.3	**115,431**	106,264
Subsidiaries	30.3	**70,777**	54,316
Subtotal		**297,669**	269,615
Carried at fair value:			
Bonds	30.3	**16,429**	18,047
Interest payable of debt securities issued		**3,590**	N.A.
Total		**317,688**	287,662

Note: These debt securities issued are designated as fair value through profit and loss upon initiation as the Hong Kong branch of the Bank considers such designation could eliminate or significantly reduce a measurement or recognition inconsistency that would otherwise result from measuring the corresponding financial assets or recognising the gains or losses on them on different basis. Accordingly, the debts are designated as fair value through profit and loss with changes in fair values charged to profit and loss account. For the year ended 31 December 2018 and the year ended 31 December 2017, there were no significant changes due to the Group's changes in credit risks.

30.1 Subordinated bonds

Detailed information of subordinated bonds is disclosed as follows:

	Currency	Issue place	Coupon rate %	Par value (CCY)	Issue date	Maturity	Note	Issue amount	Interest payable	Balance at the end of the period	Balance at the beginning of the period
09 BoComm 02	RMB	Mainland China	4.00	13,500	2009/07/01	15 years	(a)	13,500	269	13,500	13,500
11 BoComm 01	RMB	Mainland China	5.75	26,000	2011/10/21	15 years	(b)	26,000	284	25,950	25,950
Total								39,500	553	39,450	39,450

(a) The Group has an option to redeem 09 BoComm 02 on 3 July 2019. If no redemption exercised by the Group, the bonds will bear a fixed coupon rate of 7.00% for the remaining 5 years commencing 3 July 2019.

(b) The Group has an option to redeem 11 BoComm 01 on 24 October 2021. The bonds bear a fixed coupon rate of 5.75%.

(All amounts expressed in millions of RMB unless otherwise stated)

30 DEBT SECURITIES ISSUED *(Continued)*

30.2 Tier 2 capital bonds

Detailed information of Tier 2 capital bonds is disclosed as follows:

	Currency	Issue place	Coupon rate %	Par value (CCY)	Issue date	Maturity	Note	Issue amount	Interest payable	Balance at the end of the period	Balance at the beginning of the period
Bank											
14 BoComm 01	RMB	Mainland China	5.80	28,000	2014/08/18	10 years	(a)	28,000	601	27,976	27,963
14 BoComm 01-USD	USD	Hong Kong	4.50	1,200	2014/10/03	10 years	(b)	8,236	91	8,169	7,786
14 BoComm 01-Euro	EUR	Hong Kong	3.625	500	2014/10/03	12 years	(c)	3,924	35	3,904	3,876
17 BoComm 02	RMB	Mainland China	4.50	30,000	2017/04/11	10 years	(d)	30,000	973	29,968	29,960
Subtotal								70,160	1,700	70,017	69,585
Subsidiaries											
18 Leasing 02	RMB	Mainland China	5.15	2,000	2018/09/18	10 years	(e)	2,000	29	1,994	–
Subtotal								2,000	29	1,994	–
Total								72,160	1,729	72,011	69,585

(a) The Group has an option to redeem 14 BoComm 01 at the face value partially or as a whole on 19 August 2019, provided CBIRC's permission is acquired in advance and the Group's capital structure fulfils the CBIRC requirements on capital if the redemption is exercised.

(b) The Group has an option to redeem 14 BoComm 01-USD as a whole on 3 October 2019. If the issuer does not exercise the redemption right at the end of the 5th year, the interest rate will be adjusted based on swap value of 5-year US treasury bonds plus 285 basis points.

(c) The Group has an option to redeem 14 BoComm 01-Euro as a whole on 3 October 2021. If the issuer does not exercise the redemption right at the end of the 5th year, the interest rate will be adjusted based on swap value of 5-year Euro plus 300 basis points.

(d) The Group has an option to redeem 17 BoComm 02 at the face value partially or as a whole on 13 April 2022, provided CBIRC's permissions acquired in advance and the Group's capital structure fulfills the CBIRC requirements on capital if the redemption is exercised.

(e) As these bonds are 10-year bonds with fixed interest rates, the Group has an option to redeem them at the face value partially or as a whole at the end of the 5th year, provided CBIRC's permissions acquired in advance.

These Tier 2 capital bonds have the write-down feature, which allows the Group to write down the entire principal of the bonds when regulatory triggering events as stipulated in the offering documents occur and any accumulated unpaid interest would become not payable. The subordinated debts are regarded as Tier 2 capital without any guarantees provided and the proceeds of the debts cannot be used for offsetting daily operating loss of the Group.

(All amounts expressed in millions of RMB unless otherwise stated)

30 DEBT SECURITIES ISSUED *(Continued)*

30.3 Bonds

Detailed information of bonds held at amortised cost is as follows:

	Currency	Issue place	Coupon rate %	Par value (CCY)	Issue date	Maturity	Issue amount	Interest payable	Balance at the end of the period	Balance at the beginning of the period
Bank										
13 BoComm 01	RMB	Mainland China	4.37	10,000	2013/07/26	5 years	10,000	–	–	10,000
15 BoComm	RMB	Mainland China	3.45	30,000	2015/12/17	5 years	30,000	28	30,000	30,000
16 BoComm Green Financial bond 01	RMB	Mainland China	2.94	10,000	2016/11/18	3 years	10,000	32	10,000	10,000
16 BoComm Green Financial bond 02	RMB	Mainland China	3.25	20,000	2016/11/18	5 years	20,000	71	20,000	20,000
17 BoComm Green Financial bond	RMB	Mainland China	4.29	20,000	2017/10/30	3 years	20,000	148	20,000	20,000
18 BoCom Micro Small Enterprises Bond	RMB	Mainland China	3.79	10,000	2018/11/30	3 years	10,000	33	10,000	–
13 Taiwan Bond B	RMB	Taiwan	3.70	400	2013/12/10	5 years	400	–	–	401
14 Formosa Bond B	RMB	Taiwan	3.85	500	2014/06/23	5 years	500	–	499	502
14 Formosa Bond C	RMB	Taiwan	4.15	500	2014/06/23	7 years	500	–	499	502
17 medium-term notes 01	USD	Hong Kong	3MLibor+0.78	700	2017/05/15	3 years	4,804	22	4,802	4,573
17 medium-term notes 02	USD	Hong Kong	3MLibor+0.88	300	2017/05/15	5 years	2,059	10	2,058	1,960
17 medium-term notes 03	USD	Hong Kong	3MLibor+0.80	400	2017/12/04	3 years	2,745	7	2,744	2,613
17 medium-term notes 04	USD	Hong Kong	3MLibor+0.90	600	2017/12/04	5 years	4,118	11	4,116	3,919
18 medium-term notes 01	USD	Hong Kong	3MLibor+0.75	600	2018/05/17	3 years	4,118	18	4,116	–
18 medium-term notes 02	USD	Hong Kong	3MLibor+0.85	700	2018/05/17	5 years	4,804	21	4,802	–
P14JHTP1B	RMB	Taiwan	3.75	900	2014/12/04	5 years	900	2	898	897
P14JHTP1C	RMB	Taiwan	3.90	700	2014/12/04	7 years	700	2	698	698
P14JHTP1D	RMB	Taiwan	4.00	200	2014/12/04	10 years	200	1	199	199
Sub-total							125,848	406	115,431	106,264
Subsidiaries										
13 Azure Orbit	USD	Hong Kong	3.75	500	2013/03/06	10 years	3,432	41	3,427	3,267
14 Azure Orbit	USD	Hong Kong	3.375	500	2014/04/25	5 years	3,432	21	3,428	3,267
5 Year medium-term notes	USD	Hong Kong	3.125	385	2015/08/18	5 years	2,642	31	2,642	2,516
3 Year medium-term notes	EUR	Luxembourg	3M Euribor+1.15	100	2015/08/18	3 years	785	–	–	780
3 Year USD bond	USD	Hong Kong	2.23	400	2016/03/15	3 years	2,745	18	2,745	2,614
5 Year USD bond	USD	Hong Kong	2.748	600	2016/03/15	5 years	4,118	33	4,105	3,870
3 Year USD bond	USD	Hong Kong	3.50	300	2018/01/25	3 years	2,059	31	2,035	–
5 Year USD bond	USD	Hong Kong	3.75	950	2018/01/25	5 years	6,520	106	6,496	–
10 Year USD bond	USD	Hong Kong	4.00	250	2018/01/25	10 years	1,716	30	1,692	–
15 Leasing	RMB	Mainland China	3.80	4,000	2015/10/16	3 years	4,000	–	–	3,200
16 Leasing 01	RMB	Mainland China	3.17	4,000	2016/07/21	3 years	4,000	53	3,898	3,900
16 Leasing 02	RMB	Mainland China	3.05	1,500	2016/09/07	3 years	1,500	14	1,199	1,200
16 Leasing 03	RMB	Mainland China	3.25	500	2016/09/07	5 years	500	5	449	450
17 Leasing 01	RMB	Mainland China	4.53	2,000	2017/07/18	3 years	2,000	41	1,947	1,950
17 Leasing 02	RMB	Mainland China	4.60	3,000	2017/08/22	3 years	3,000	49	2,395	2,100
17 Leasing 03	RMB	Mainland China	4.70	3,000	2017/10/18	3 years	3,000	28	2,395	2,400
18 Leasing 02	RMB	Mainland China	4.14	4,000	2018/10/22	3 years	4,000	31	3,989	–
Azure Nova	USD	Hong Kong	2.25	500	2016/10/25	3 years	3,432	14	3,431	3,265
Azure Nova	USD	Hong Kong	2.625	1,000	2016/10/25	5 years	6,863	33	6,847	6,513
Azure Nova	USD	Hong Kong	3.00	700	2017/03/21	3 years	4,804	40	4,788	4,567
Azure Nova	USD	Hong Kong	3.50	1,050	2017/03/21	5 years	7,206	70	7,171	6,831
Azure Nova	USD	Hong Kong	4.25	250	2017/03/21	10 years	1,716	20	1,708	1,626
18 Leasing 01	RMB	Mainland China	4.53	4,000	2018/07/05	3 years	4,000	87	3,990	–
Sub-total							77,470	796	70,777	54,316
Total							203,318	1,202	186,208	160,580

(All amounts expressed in millions of RMB unless otherwise stated)

30 DEBT SECURITIES ISSUED *(Continued)*

30.3 Bonds *(Continued)*

Detailed information of bonds held at fair value is as follows:

	Currency	Issue place	Coupon rate %	Par value (CCY)	Issue date	Maturity	Issue amount	Amortised cost	Interest payable	Fair value at the end of the period	Balance at the beginning of the period
14 Hong Kong bond	HKD	Hong Kong	4.00	500	2014/02/14	7 years	438	438	6	449	415
14 Hong Kong bond 02	HKD	Hong Kong	3.20	350	2014/04/02	5 years	307	307	2	307	293
15 Hong Kong medium-term notes	USD	Hong Kong	2.50	750	2015/01/16	3 years	5,159	–	–	–	4,895
16 Hong Kong medium-term notes	USD	Hong Kong	2.25	500	2016/01/25	3 years	3,432	3,432	34	3,429	3,274
16 Hong Kong medium-term notes	USD	Hong Kong	3MLibor+0.875	550	2016/08/16	3 years	3,775	3,775	14	3,777	3,602
17 Hong Kong medium-term notes	USD	Hong Kong	3MLibor+0.775	850	2017/02/21	3 years	5,834	5,834	23	5,833	5,568
18 Hong Kong medium-term notes	HKD	Hong Kong	2.95	3,000	2018/05/18	2 years	2,629	2,629	48	2,634	–
Total							21,574	16,415	127	16,429	18,047

31 OTHER LIABILITIES

	As at 31 December 2018	As at 31 December 2017
Interest payable	–	92,579
Insurance contracts reserve	**22,821**	21,428
Settlement accounts	**21,692**	24,742
Staff compensation payable	**9,309**	8,770
Deposits received for finance lease	**7,677**	8,390
VAT and other taxes payable	**4,515**	3,939
Provision for outstanding litigation (a)	**982**	449
Dividends payable	**77**	102
Others	**64,641**	43,111
Total	**131,714**	203,510

31 OTHER LIABILITIES *(Continued)*

(a) The movements in the provision for outstanding litigation and unsettled obligation

	As at 1 January 2018	**Amounts accrued during the year**	**Amounts paid during the year**	**Amounts reversed during the year**	**Exchange differences**	**As at 31 December 2018**
Provision for outstanding litigation	**449**	**640**	**(16)**	**(91)**	**–**	**982**
	449	**640**	**(16)**	**(91)**	**–**	**982**

	As at 1 January 2017	Amounts accrued during the year	Amounts paid during the year	Amounts reversed during the year	Exchange differences	As at 31 December 2017
Provision for outstanding litigation	348	223	(9)	(113)	–	449
Provision for unsettled obligation	100	–	(100)	–	–	–
	448	223	(109)	(113)	–	449

32 SHARE CAPITAL AND CAPITAL SURPLUS

	Number of shares (in millions)	**Ordinary shares of RMB1 each**	**Capital surplus**	**Total**
As at 1 January 2018	**74,263**	**74,263**	**113,663**	**187,926**
As at 31 December 2018	**74,263**	**74,263**	**113,663**	**187,926**

	Number of shares (in millions)	Ordinary shares of RMB1 each	Capital surplus	Total
As at 1 January 2017	74,263	74,263	113,392	187,655
As at 31 December 2017	74,263	74,263	113,663	187,926

As at 31 December 2018 and 31 December 2017, the number of A shares of the Group is 39,251 million, and the number of H shares of the Group is 35,012 million, both with par value of RMB1 per share.

32 SHARE CAPITAL AND CAPITAL SURPLUS *(Continued)*

As at 31 December 2018 and 31 December 2017, the Group's capital surplus is listed as follows:

	As at 1 January 2018	**Additions**	**Reductions**	**As at 31 December 2018**
Share premium	**113,046**	**–**	**–**	**113,046**
Property revaluation gain designated by MOF	**472**	**–**	**–**	**472**
Donation of non-cash assets	**148**	**–**	**–**	**148**
Movements in non-controlling interests	**(41)**	**–**	**–**	**(41)**
Capital increase in an associate	**16**	**–**	**–**	**16**
Others	**22**	**–**	**–**	**22**
Total	**113,663**	**–**	**–**	**113,663**

	As at 1 January 2017	Additions	Reductions	As at 31 December 2017
Share premium	112,769	277	–	113,046
Property revaluation gain designated by MOF	472	–	–	472
Donation of non-cash assets	148	–	–	148
Movements in non-controlling interests	(41)	–	–	(41)
Capital increase in an associate	16	–	–	16
Others	28	–	(6)	22
Total	113,392	277	(6)	113,663

33 PREFERENCE SHARES

33.1 Preference shares outstanding at the end of the period

	Issue date	Accounting classification	Dividend rate	Issue price	Amount in shares	In original currency (in millions)	In RMB (in millions)	Maturity	Conversion condition	Conversion
Offshore preference share										
Preference shares in USD	2015-07-29	Equity	5.00%	USD20/share	122,500,000	2,450	14,982	No maturity date	Mandatory	No conversion during the year
Domestic preference shares										
Preference shares in RMB	2016-09-02	Equity	3.90%	RMB100/share	450,000,000	45,000	45,000	No maturity date	Mandatory	No conversion during the year
					Total		59,982			
					Less: Issuance fees		(106)			
					Book value		59,876			

33 PREFERENCE SHARES *(Continued)*

33.2 Main clauses

Offshore preference shares

(a) Dividend

The offshore preference shares will accrue dividends on their issue price at the relevant dividend rate below:

(1) From and including the issue date to but excluding the first reset date, at the rate of 5.00% per annum; and

(2) The dividend rate will be re-priced every five years thereafter with reference to the five-year US treasury bonds yield plus a fixed premium of 3.344%. As authorised by the shareholders' annual general meeting, the Board of Directors has the sole discretion to declare and distribute dividends on offshore preference shares.

The dividend for offshore preference shares is non-cumulative. Where the Bank determines to cancel the dividend for offshore preference shares in whole or in part, the omitted dividend will not be carried forward and claimed in the future period. After receiving dividends at the agreed dividend rate, offshore preference shareholders of the Bank will not participate in the distribution of residual profits with ordinary shareholders. Domestic preference shares issued by the Bank have the same dividend distribution order as the offshore preference shares.

(b) Conditions to distribution of dividends

The Bank could pay dividends while the bank still has distributable after-tax profit after making up previous years' losses, contributing to the statutory reserve and making general provisions, and the Bank's capital adequacy ratio meets regulatory requirements. Offshore preference shareholders of the Bank are senior to the ordinary shareholders on the right to dividends.

Subject to a resolution to be passed at a shareholders' general meeting of the Bank on each such occasion, the Bank may elect to cancel (in whole or in part) any dividend. The Bank shall not distribute any dividends to its ordinary shareholders before it declares such dividends to preference shareholders for the relevant periods.

(c) Mandatory conversion trigger events

Upon occurrence of the triggering events as stipulated by the offering documents and subject to regulatory approval, offshore preference share shall be mandatorily converted into ordinary H Shares of the Bank (as converted into Hong Kong dollars at the fixed exchange rate of USD1.00 to HKD7.7555), partially or entirely. The initial mandatory convertible price is HKD6.51 per share. To balance the interest between preference shareholders and ordinary shareholders, the mandatory conversion price of the preference shares will be cumulatively adjusted in sequence where certain events occur including issuances of bonus shares, capitalisation of reserves, new issuances of ordinary shares at a price lower than the market price (excluding equity increases due to exercise of convertible financing instruments that can be converted into ordinary shares) and rights issues, subject to terms and formulas provided for in the offering documents. Appropriation of dividends to ordinary shareholders is not trigger event for price adjustment.

33 PREFERENCE SHARES *(Continued)*

33.2 Main clauses *(Continued)*

Offshore preference shares *(Continued)*

(d) Order of distribution and liquidation method

On winding-up of the Bank, distribution to offshore preference shareholders is made after all debts of the Bank (including subordinated debts) and obligations that are issued or guaranteed by the Bank and specifically stated to be distributed prior to the offshore preference shares; all offshore preference shareholders are ranked the same in the distribution sequence without priority among them and have the same repayment sequence rights as holders of obligations with equivalent rights. In addition, distribution is made to offshore preference shareholders prior to ordinary shareholders.

On winding-up of the Bank, any remaining assets of the Bank shall, after the distributions in accordance with the terms and conditions of the offshore preference shares have been made, be applied to the claims of the offshore preference shareholders equally in all respects with the claims of holders of any parity obligations (which term, for the avoidance of doubt, includes the domestic preference shares and any other preference shares of the Bank issued from time to time to investors outside the PRC) and in priority to the claims of the holders of ordinary shares.

The distribution amount obtained by the offshore preference shareholders shall be the total par value of the issued and outstanding preference shares plus dividends declared but not paid in the current period; if the distribution amount is insufficient, domestic and offshore preference shareholders will share the distribution amount on a proportional basis.

(e) Redemption

The offshore preference shares are perpetual and have no maturity date. The Bank may, subject to obtaining CBIRC approval and in compliance with the redemption preconditions, redeem all or some of the offshore preference shares on 29 July 2020 and on any dividend payment date thereafter. The redemption period ends at the date when shares are fully converted or redeemed.

Domestic preference shares

(a) Dividend

The domestic preference shares will accrue dividends on their issue price at the relevant dividend rate below:

(1) From and including the issue date to but excluding the first reset date, at the rate of 3.90% per annum; and

(2) The dividend rate will be re-priced every five years thereafter with reference to the arithmetic average value (rounding off to 0.01%) of five-year Chinese treasury bonds yield at the date which is 20 transaction days before the reset date (excluding the date)plus a fixed premium of 1.37%. As authorised by the shareholders' annual general meeting, the Board of Directors has the sole discretion to declare and distribute dividends on domestic preference shares.

The dividend for domestic preference shares is non-cumulative. Where the Bank determines to cancel the dividend for domestic preference shares in whole or in part, the omitted dividend will not be carried forward and claimed in the future period. After receiving dividends at the agreed dividend rate, domestic preference shareholders of the Bank will not participate in the distribution of residual profits with ordinary shareholders. Domestic preference shares issued by the Bank have the same dividend distribution order as the offshore preference shares.

33 PREFERENCE SHARES *(Continued)*

33.2 Main clauses *(Continued)*

Domestic preference shares *(Continued)*

(b) Conditions to distribution of dividends

The Bank could pay dividends while the bank still has distributable after-tax profit after making up previous years' losses, contributing to the statutory reserve and making general provisions, and the Bank's capital adequacy ratio meets regulatory requirements. Domestic preference shareholders of the Bank are senior to the ordinary shareholders on the right to dividends.

Subject to a resolution to be passed at a shareholders' general meeting of the Bank on each such occasion, the Bank may elect to cancel (in whole or in part) any preference share dividend. The Bank shall not distribute any dividends to its ordinary shareholders before it declares such dividends to preference shareholders for the relevant periods.

(c) Mandatory conversion trigger events

Upon occurrence of the triggering events as stipulated by the offering documents and subject to regulatory approval, domestic preference shares shall be mandatorily converted into ordinary A Shares of the Bank, partially or entirely. The initial mandatory conversion price is RMB6.25 per share. To balance the interest between preference shareholders and ordinary shareholders, the mandatory conversion price of the preference shares will be cumulatively adjusted in sequence where certain events occur including issuances of bonus shares, capitalisation of reserves, new issuances of ordinary shares at a price lower than the market price (excluding equity increased due to exercise of convertible financing instruments that can be converted into ordinary shares) and rights issues, subject to terms and formulas provided for in the offering documents. Appropriation of dividends to ordinary shareholders is not trigger event for price adjustment.

(d) Order of distribution and liquidation method

On winding-up of the Bank, distribution to domestic preference shareholders is made after all debts of the Bank (including subordinated debts) and obligations that are issued or guaranteed by the Bank and specifically stated to be distributed prior to the domestic preference shares; all domestic preference shareholders are ranked at the same in the distribution sequence without priority among them and have the same repayment sequence rights as holders of obligations with equivalent rights. In addition, distribution is made to domestic preference shareholders prior to ordinary shareholders.

On winding-up of the Bank, any remaining assets of the Bank shall, after the distributions in accordance with the terms and conditions of the domestic preference shares have been made, be applied to the claims of the domestic preference shareholders equally in all respects with the claims of holders of any parity obligations (which term, for the avoidance of doubt, includes the domestic preference shares and any other preference shares of the Bank issued from time to time to investors outside the PRC) and in priority to the claims of the holders of ordinary shares.

The distribution amount obtained by the domestic preference shareholders shall be the total par value of the issued and outstanding preference shares plus dividends declared but not paid in the current period; if the distribution amount is insufficient, domestic and offshore preference shareholders will share the distribution amount on a proportional basis.

(e) Redemption

The domestic preference shares are perpetual and have no maturity date. The Bank may, subject to obtaining CBIRC approval and in compliance with the redemption preconditions, redeem all or some of the domestic preference shares on 2 September 2021 and on any preference share dividend payment date thereafter. The redemption period ends at the date when shares are fully converted or redeemed.

(All amounts expressed in millions of RMB unless otherwise stated)

33 PREFERENCE SHARES *(Continued)*

33.3 Movement of preference shares issued

	Balance at 1 January 2018	Movement		Balance at 31 December 2018
		Additions	Reductions	
Offshore preference shares				
Amount (shares)	122,500,000	–	–	**122,500,000**
In RMB (millions)	14,924	–	–	**14,924**
Domestic preference shares				
Amount (shares)	450,000,000	–	–	**450,000,000**
In RMB (millions)	44,952	–	–	**44,952**

33.4 Interests attribute to holders of preference shares

	As at 31 December 2018	As at 31 December 2017
Total equity attribute to equity holders of the parent company	**698,405**	671,143
Equity attribute to ordinary shareholders of the parent company	**638,529**	611,267
Equity attribute to preference shareholders of the parent company	**59,876**	59,876
Of which: Net profit	***2,618***	*2,693*
Total comprehensive income	**–**	–
Dividends paid during the year	***2,618***	*2,693*
Unpaid cumulative dividends	**–**	–
Total equity attribute to non-controlling interests	**6,903**	5,128
Equity attribute to non-controlling interests of ordinary shares	**6,903**	5,128
Equity attribute to non-controlling interests of preference shares	**–**	–

34 RESERVES AND RETAINED EARNINGS

Pursuant to the relevant PRC regulations, the appropriation of profits to the statutory general reserve, the discretionary reserve and the distribution of dividends in each year are based on the recommendations of the Directors and are subject to the resolutions to be passed at the General Meeting.

Pursuant to the relevant PRC regulations, the bank is required to appropriate 10% of its net profit for the year (Note 34) to the undistributable statutory surplus reserve until the reserve balance reaches 50% of its registered capital.

Pursuant to the relevant PRC banking regulations, the Bank is required to transfer a certain amount of its net income to the statutory general reserve through its profit appropriation. It is determined based on the overall unidentified loss exposure; normally no lower than 1.5% of the ending balance of risk assets. The statutory general reserve is an integral part of shareholders' equity but not subject to dividend distribution. Such statutory general reserve is recognised in the statement of financial position upon approval by the shareholders at the Annual General Meeting. Regulatory reserve of the Hong Kong branch required by the Hong Kong Monetary Authority is also included in above statutory general reserve.

Since 1 July 2012, pursuant to Administrative Measures for the Provisioning of Financial Enterprises (Cai Jin [2012] No. 20), the Bank made general reserve for the risk assets as defined by the policy. The Bank's subsidiaries and oversea branches, if required by local regulation requirements, also need to make such accrual for risk assets.

In accordance with the relevant PRC legislation, upon the approval by shareholders at the General Meeting, discretionary reserve can be appropriated following the appropriation of statutory reserve from the distributable profit of the Bank and its domestic subsidiaries.

(All amounts expressed in millions of RMB unless otherwise stated)

34 RESERVES AND RETAINED EARNINGS *(Continued)*

The 2017 annual general meeting, held on June 29, 2018, considered and adopted the 2017 profit distribution scheme, which is distributed as follows:

	Year ended 31 December	
	2018	2017
Statutory reserve	**6,833**	6,621
Statutory general reserve	**8,705**	16,116
Discretionary reserve	**–**	–
Total	**15,538**	22,737

During the year ended 31 December 2018, the Group and the Bank transferred RMB9,811 million (2017: RMB16,738 million) and RMB8,705 million (2017: RMB16,116 million) respectively to the General Reserve pursuant to the regulatory requirements in the PRC and overseas jurisdictions. Of this amount, RMB8,705 million (2017: RMB16,116 million) related to the appropriation proposed for the Bank for the year ended 31 December 2017 which was approved in the 2017 Annual General Meeting held on 29 June 2018.

Revaluation reserve

	2018
As at 31 December 2017	**(2,237)**
Impact of adoption of IFRS 9 on opening balance	**(1,345)**
Opening balance under IFRS 9 (restated)	**(3,582)**
Changes in fair value recorded in equity	**2,936**
Changes in fair value reclassified from equity to profit or loss	**(228)**
Income tax relating to components of other comprehensive income	**(611)**
Transferred from other comprehensive income	**4**
At the end of the year	**(1,481)**

Revaluation reserve for available-for-sale financial assets

The movements of the revaluation reserve for available-for-sale financial assets are set out below:

	2017
At the beginning of the year	2,191
Changes in fair value recorded in equity	(3,089)
Changes in fair value reclassified from equity to profit or loss	(2,631)
Income tax relating to components of other comprehensive income	1,292
At the end of the year	(2,237)

(All amounts expressed in millions of RMB unless otherwise stated)

34 RESERVES AND RETAINED EARNINGS *(Continued)*

Retained earnings

The movements of retained earnings are set out below:

	Year ended 31 December	
	2018	2017
At the beginning of the year	**124,514**	100,698
Impact of adoption of IFRS 9 on opening balance	**(28,257)**	N.A.
Opening balance under IFRS 9 (restated)	**96,257**	100,698
Profit for the year	**73,630**	70,223
Appropriation to statutory reserve	**(7,055)**	(6,811)
Appropriation to statutory general reserve	**(9,811)**	(16,738)
Appropriation to discretionary reserve	**(29)**	(3)
Dividends payable to ordinary shareholders	**(21,209)**	(20,162)
Dividends payable to preference shareholders	**(2,618)**	(2,693)
Others	**(4)**	–
At the end of the year	**129,161**	124,514

35 DIVIDENDS

	Year ended 31 December	
	2018	2017
Dividends to ordinary shareholders of the Bank	**21,209**	20,162
Dividends to preference shareholders of the Bank	**2,618**	2,693

Under PRC Company Law and the Bank's Articles of Association, the net profit after tax as reported in the PRC statutory financial statements can only be distributed as dividends after allowances for the following:

(1) Making up cumulative losses from prior years, if any;

(2) Allocations to the non-distributable statutory reserve of 10% of the net profit of the Bank as determined under the relevant PRC accounting standards;

(3) Allocations to statutory general reserve;

(4) Allocations to the discretionary reserve upon approval by the Annual General Meeting. These funds form part of the shareholders' equity.

The cash dividends are recognised in the consolidated statement of financial position upon approval by the shareholders at Annual General Meeting.

Pursuant to the proposal raised at the Board meeting on 29 March 2018 and the approval by the Annual General Meeting of Shareholders on 29 June 2018, the Bank appropriated RMB8,705 million to the statutory general reserve. It was also resolved that a cash dividend of RMB0.2856 (before tax) for each ordinary share, with total amount of RMB21,209 million, calculated based on 74,263 million shares outstanding (the par value per share is RMB1) as at 31 December 2017, will be distributed to ordinary shareholders.

(All amounts expressed in millions of RMB unless otherwise stated)

35 DIVIDENDS *(Continued)*

Pursuant to the approval by the Board meeting on 27 April 2018, the Bank appropriated overseas preference dividends on 29 July 2018 with a dividend yield of 5% (the actual dividend yield obtained by the preference shareholders) with total amount of USD136 million. Since 29 July is not a working day, the dividend payment day defers to 30 July 2018. The Bank will appropriate domestic preference dividends on 7 September 2018 with a dividend yield of 3.9% (the actual dividend yield obtained by the preference shareholders), with total amount of RMB1,755 million.

Pursuant to the *Administrative Measures for Securities Issuance and Underwriting*, in the situation that the proposals of profit distribution and capital contribution from reserve have not been submitted for the approval from shareholders' general meeting or approved but not yet executed, listed companies shall issue securities after the execution of aforementioned proposals. The Bank is in the progress of the public issuance of A share convertible corporate bonds and has not formulated the profit distribution proposal for the year of 2018, which the Bank will formulate and submit for the approval from the Board of Directors and shareholders' general meeting of the year of 2018 at earliest.

36 FINANCIAL GUARANTEES AND CREDIT RELATED COMMITMENTS, OTHER COMMITMENTS AND CONTINGENT LIABILITIES

Financial guarantees and credit related commitments

The following tables indicate the contractual amounts of the Group's financial guarantees and credit related commitments which the Group has committed to its customers:

	As at 31 December 2018	As at 31 December 2017
Letters of guarantee	**268,097**	272,981
Letters of credit commitments	**141,137**	131,280
Acceptances bills	**228,550**	196,125
Credit card commitments	**759,994**	742,011
Loan commitments		
– Under 1 year	**12,709**	16,147
– 1 year and over	**45,731**	54,159
	1,456,218	1,412,703

Capital expenditure commitments

	As at 31 December 2018	As at 31 December 2017
Contracted but not provided for	**66,968**	70,236

Operating lease commitments

Where the Group is the lessee, the future minimum lease payments on buildings and equipment under non-cancellable operating leases are as follows:

	As at 31 December 2018	As at 31 December 2017
Within 1 year (inclusive)	**3,918**	4,185
Beyond 1 year but no more than 2 years (inclusive)	**2,772**	3,124
Beyond 2 years but no more than 3 years (inclusive)	**1,908**	2,186
Beyond 3 years but no more than 5 years (inclusive)	**2,215**	2,492
More than 5 years	**1,532**	1,819
	12,345	13,806

(All amounts expressed in millions of RMB unless otherwise stated)

36 FINANCIAL GUARANTEES AND CREDIT RELATED COMMITMENTS, OTHER COMMITMENTS AND CONTINGENT LIABILITIES *(Continued)*

Operating lease commitments *(Continued)*

The Group acts as lessor in operating leases principally through aircraft and vessels leasing undertaken by its subsidiaries. The future minimum lease receivables on certain aircraft and vessel under irrevocable operating leases are as follows:

	As at 31 December 2018	As at 31 December 2017
Within 1 year (inclusive)	**11,204**	8,411
Beyond 1 year but no more than 2 years (inclusive)	**11,045**	8,388
Beyond 2 years but no more than 3 years (inclusive)	**10,768**	8,139
Beyond 3 years but no more than 5 years (inclusive)	**20,983**	14,892
More than 5 years	**59,827**	37,053
	113,827	76,883

Commitments on security underwriting and bond acceptance

The Group is entrusted by the MOF to underwrite certain Certificated Bonds and Savings Bonds. The investors of Certificated Bonds and Savings Bonds have early redemption right while the Group has the obligation to buy back those Certificated Bonds and Savings Bonds. The redemption price is the principal value of the Certificated Bonds or Savings Bonds plus unpaid interest till redemption date. As at 31 December 2018, the principal value of the Treasury Bonds that the Group had the obligation to buy back amounted to RMB74,423 million (31 December 2017: RMB73,271 million). The MOF will not provide funding for the early redemption of these Certificated Bonds and Savings Bonds on a back-to-back basis but will pay interest and principal at maturity. The Group expects the amount of redemption before the maturity dates of these bonds through the Group will not be material.

The original maturities of these bonds vary from 1 to 5 years.

As at 31 December 2018, there was no unfulfilled insurance of irrevocable commitment on security underwriting of the Group announced to the public (31 December 2017: Nil).

Legal proceedings

The Group is involved as defendants in certain lawsuits arising from its normal business operations. Management of the Group believes, based on legal advice, that the final result of these lawsuits will not have a material impact on the financial position or operations of the Group. The total outstanding claims against the Group (defendant) by a number of third parties at the end of the periods are summarised as follows:

	As at 31 December 2018	As at 31 December 2017
Outstanding claims	**3,242**	3,694
Provision for outstanding litigation (Note 31)	**982**	449

(All amounts expressed in millions of RMB unless otherwise stated)

37 COLLATERALS

(1) Assets pledged

Assets pledged are mainly collaterals under repurchase arrangement and short selling business among banks and other financial institutions and pledge related to the membership of local stock exchange.

	Pledged assets		Associated liabilities	
	As at 31 December 2018	**As at 31 December 2017**	As at 31 December 2018	As at 31 December 2017
Investment securities	**697,288**	**683,907**	581,070	589,154
Bills	**32,308**	**25,885**	32,308	25,885
Total	**729,596**	**709,792**	613,378	615,039

Financial assets sold under repurchase agreements included certain transactions under which, title of the pledged securities has been transferred to counterparties. These transactions have been disclosed in Note 42 transfers of financial assets.

(2) Collateral accepted

The Group accepts collaterals under reverse repurchase agreements, which are permitted for sale or re-pledge. As at 31 December 2018, the fair value of such collaterals amounted to RMB2,758 million (31 December 2017: RMB18,079 million). All pledges are conducted under standard and normal business terms. As at 31 December 2018 and 31 December 2017, the Group did not sell or re-pledge any collaterals received.

38 OTHER COMPREHENSIVE INCOME

	Year ended 31 December 2018		
	Before tax amount	**Tax benefit (expense)**	**Net of tax amount**
Other comprehensive income			
Loans and advances to customers- Carried at FVOCI	**241**	**(139)**	**102**
Net gains recorded in equity	***241***	***(139)***	***102***
Net gains reclassified from equity to profit or loss	**–**	**–**	**–**
Financial investments – debt instruments at fair value through other comprehensive income	**2,367**	**(452)**	**1,915**
Net gains recorded in equity	***2,595***	***(509)***	***2,086***
Net gains reclassified from equity to profit or loss	***(228)***	***57***	***(171)***
Cash flow hedge reserve	**23**	**(6)**	**17**
Changes in fair value recorded in equity	***147***	***(37)***	***110***
Changes in fair value reclassified from equity to profit or loss	***(124)***	***31***	***(93)***
Translation difference on foreign operations	**1,998**	**–**	**1,998**
Net gains on investments in equity instruments designated at FVOCI	**81**	**(20)**	**61**
Change in fair value attributable to change in the credit risk of financial liability designated at FVPL	**(14)**	**–**	**(14)**
Actuarial gains on pension benefits	**(25)**	**–**	**(25)**
Others	**18**	**–**	**18**
Other comprehensive income for the year	**4,689**	**(617)**	**4,072**

(All amounts expressed in millions of RMB unless otherwise stated)

38 OTHER COMPREHENSIVE INCOME *(Continued)*

	Year ended 31 December 2017		
	Before tax amount	Tax benefit (expense)	Net of tax amount
Other comprehensive income			
Financial investments – available-for-sale	(5,720)	1,292	(4,428)
Changes in fair value recorded in equity	*(3,089)*	*772*	*(2,317)*
Changes in fair value reclassified from equity to profit or loss	*(2,631)*	*520*	*(2,111)*
Cash flow hedge reserve	161	(40)	121
Changes in fair value recorded in equity	*23*	*(5)*	*18*
Changes in fair value reclassified from equity to profit or loss	*138*	*(35)*	*103*
Translation difference on foreign operations	(1,592)	–	(1,592)
Actuarial gains on pension benefits	31	–	31
Others	(9)	–	(9)
Other comprehensive income for the year	(7,129)	1,252	(5,877)

39 NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

Analysis of the balance of cash and cash equivalents

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise the following balances with original maturities of less than or equal to 90 days used for the purpose of meeting short-term cash commitments:

	As at 31 December 2018	As at 31 December 2017
Cash and balances with central banks (Note 15)	**123,665**	116,397
Due from banks and other financial institutions (Note 16)	**119,827**	112,522
	243,492	228,919

40 CONSOLIDATED STRUCTURED ENTITIES

The Group has consolidated certain structured entities which are primarily wealth management products. When assessing whether to consolidate structured entities, the Group reviews all facts and circumstances to determine whether the Group, as manager, is acting as agent or principal. These factors considered include scope of the manager's decision-making authority, rights held by other parties, remuneration to which it is entitled and exposure to variability of returns. For those wealth management products where the Group provides financial guarantee, the Group therefore has obligation to fund the losses, if any, in accordance with the guarantee agreements although the Group does not have any investment in those products. The Group concludes that these structured entities shall be consolidated.

As at 31 December 2018, the wealth management products managed and consolidated by the Group amounted to RMB138,366 million (31 December 2017: RMB938,943 million). The financial impact of any individual wealth management products on the Group's financial performance is not significant.

Interests held by other interest holders are included in due to customers.

(All amounts expressed in millions of RMB unless otherwise stated)

41 UNCONSOLIDATED STRUCTURED ENTITIES

The Group has been involved in other structured entities through investments in structured entities or acting as sponsors of structured entities that provide specialised investment opportunities to investors. These structured entities generally finance the purchase of assets by issuing units of the products. The Group did not control these structured entities and therefore, these structured entities were not consolidated.

As at 31 December 2018, those structured entities sponsored by the Group consist primarily of funds, trusts, asset management products and wealth management products with principals not guaranteed by the Group. The Group earns commission income by providing management services to the investors of these structured entities, which are not material to the Group. In addition, the Group is also involved in certain structured entities sponsored by the Group or third parties through direct investments. These investments are recognised as Financial investments-investments at fair value through profit and Financial investments – debt instruments at amortised cost.

As at 31 December 2018 and 31 December 2017, unconsolidated structured entities sponsored by the Group are set out as below:

	Sponsored amount		
	31 December 2018	31 December 2017	Type of income
Funds	**242,502**	193,490	Commission income
Trusts and asset management products	**1,054,073**	1,266,372	Commission income
Wealth management products	**960,003**	962,517	Commission income
Total	**2,256,578**	2,422,379	

For the year ended 31 December 2018, the Group's commission income from provision of providing service to the investors of the structured entities managed by the Group was RMB2,936 million (For the year ended 31 December 2017: RMB5,748 million), and Net Interest Income which related to placements transactions by the Group with WMP Vehicles was RMB1,612 million (For the year ended 31 December 2017: RMB1,562 million).

(All amounts expressed in millions of RMB unless otherwise stated)

41 UNCONSOLIDATED STRUCTURED ENTITIES *(Continued)*

As at 31 December 2018 and 31 December 2017, the carrying amount of interests in unconsolidated structured entities held by the Group through investment was set out as follows:

	As at 31 December 2018			
	Carrying amount			
	Financial investments – financial assets at fair value through profit or loss	**Financial investments – debt instruments at amortised cost**	**Maximum exposure to loss**	**Type of income**
Funds	**180,547**	**–**	**180,547**	**Net gains arising from trading activities**
Trusts and asset management products	**4,906**	**200,861**	**205,767**	**Net gains arising from trading activities Interest income**
Wealth management products	**2,101**	**–**	**2,101**	**Net gains arising from trading activities**
Total	**187,554**	**200,861**	**388,415**	

The information of total size of the unconsolidated structured entities listed above is not readily available from the public domain.

	As at 31 December 2017				
	Carrying amount				
	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables	Maximum exposure to loss	Type of income
Funds	81,991	2,268	–	84,259	Net gains arising from trading activities
Trusts and asset management products	1,881	315	270,457	272,653	Interest income
Total	83,872	2,583	270,457	356,912	

42 TRANSFERS OF FINANCIAL ASSETS

42.1 Financial assets sold under repurchase agreements

Sales and repurchase agreements are transactions in which the Group sells a security and simultaneously agrees to repurchase it (or an asset that is substantially the same) at a fixed price on a future date. Since the repurchase prices are fixed, the Group is still exposed to substantially all the credit risks and market risks and rewards of those securities sold. These securities, which the Group does not have the ability to use during the term of the arrangements, are not derecognised from the financial statements but regarded as "collateral" for the secured lending from these because the Group retains substantially all the risks and rewards of these securities. In addition, it recognises a financial liability for cash received.

As at 31 December 2018 and 31 December 2017, the Group enters into repurchase agreements with certain counterparties. The proceeds from selling such securities are presented as "financial assets sold under repurchase agreements" (Note 26).

(All amounts expressed in millions of RMB unless otherwise stated)

42 TRANSFERS OF FINANCIAL ASSETS *(Continued)*

42.1 Financial assets sold under repurchase agreements *(Continued)*

The following table provides a summary of carrying amounts related to the transferred financial assets that are not derecognised and the associated liabilities:

	Collaterals		Associated liabilities	
	31 December 2018	31 December 2017	**31 December 2018**	31 December 2017
Investment securities	**4,094**	3,298	**3,797**	3,116

42.2 Securities lending transactions

Transferred financial assets that do not qualify for de-recognition mainly include debt securities lent to counterparties under securities lending agreements. The counterparties are allowed to sell or repledge those securities lent under agreements to repurchase in the absence of default by the Group, but has an obligation to return the securities at the maturity of the contract. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them. As at 31 December 2018, the carrying value of debt securities lent to counterparties was RMB3,810 million (31 December 2017: RMB13,620 million).

42.3 Asset securitisation

The Group enters into securitisation transactions in the normal course of business by which it transfers credit assets to structured entities which issue asset-backed securities to investors.

The Group may retain interests in the form of subordinated tranches which may give rise to the Group's continuing involvement in the transferred assets. Those financial assets are recognised on the statement of financial position to the extent of the Group's continuing involvement. The extent of the Group's continuing involvement is the extent to which the Group is exposed to changes in the value of the transferred assets.

As at 31 December 2018, loans with an original value of RMB98,763 million and carrying amount of RMB93,777 million (31 December 2017: RMB44,021 million and RMB40,155 million) have been securitised by the Group and the Bank.

As at 31 December 2018, assets continuously recognised by the Group and the Bank amounted to RMB6,108 million have been securitised by the Group under arrangements in which the Group retained a continuing involvement in such assets in the form of holding subordinated tranches. (31 December 2017: RMB2,197 million).

42.4 Package disposal of impaired loans and advances to customers

The Group disposes impaired loans and advances to customers through transferring to third parties in the normal course of business. For the year ended 31 December 2018, the Group had transferred impaired loans and advances to customers with a total gross carrying amount of RMB8,971 million (31 December 2017: RMB24,854 million) and collected cash totaling RMB3,448 million (31 December 2017: RMB12,531 million) from the transfer. The difference between the gross carrying amount and the cash collected had already been written off. The Group de-recognised the impaired loans and advances to customers from the Group's financial statements at the time of disposal.

(All amounts expressed in millions of RMB unless otherwise stated)

43 RELATED PARTY TRANSACTIONS

(a) Transactions with the MOF

As at 31 December 2018, the MOF holds 19,703 million (31 December 2017: 19,703 million) shares of the Group which represents 26.53% (31 December 2017: 26.53%) of total share capital of the Group. The Group enters into banking transactions with the MOF under normal course of business and they mainly include the purchase and redemption of financial investments issued by the MOF and the deposits from the MOF.

The MOF is a Chinese government ministry, primarily responsible for managing state fiscal revenue and expenditures, and establishing and enforcing taxation policies. The Group enters into banking transactions with the MOF under normal course of business and they mainly include the purchase and redemption of financial investments issued by the MOF and the deposits from the MOF.

The related party transaction volumes, outstanding balances at the end of the year and the revenue from related party transactions for the year are listed below:

	As at 31 December 2018	As at 31 December 2017
Bonds issued by MOF	**524,736**	416,098
Interest receivable	**8,017**	6,032

	Year ended 31 December	
	2018	2017
Interest income	**16,040**	13,200
Interest expense	**92**	358

The interest rates of the transactions between the Group and MOF are summarised below:

	Year ended 31 December	
	2018	2017
	%	%
Bonds issued by MOF	**1.927~5.05**	1.94~5.50
Due to customers	**3.71**	4.46~4.51

(b) Transactions with National Council for Social Security Fund

As at 31 December 2018, National Council for Social Security Fund holds 10,923 million (31 December 2017: 10,920 million) shares in the Group which represents 14.71% (31 December 2017: 14.70%) of total share capital of the Group. The Group enters into transactions with National Council for Social Security Fund under normal course of business and they mainly include deposits which are carried out under normal commercial terms and paid at market rates.

Details of transaction volumes and outstanding balances are summarised below:

	As at 31 December 2018	As at 31 December 2017
Due to customers	**26,650**	34,150
Interest payable	**359**	509

	Year ended 31 December	
	2018	2017
Interest expense	**1,355**	2,553

(All amounts expressed in millions of RMB unless otherwise stated)

43 RELATED PARTY TRANSACTIONS *(Continued)*

(b) Transactions with National Council for Social Security Fund *(Continued)*

The interest rates of the transactions between the Group and the National Council for Social Security Fund are summarised below:

	Year ended 31 December	
	2018	2017
	%	%
Due to customers	**3.85~6.10**	3.85~6.10

(c) Transactions with The Hong Kong and Shanghai Banking Corporation Limited and its subsidiaries ("HSBC")

As at 31 December 2018, HSBC holds 13,886 million (31 December 2017: 13,886 million) shares of the Group which represents 18.70% (31 December 2017: 18.70%) of total share capital of the Group. Transactions between the Group and HSBC are carried out under normal commercial terms and paid at market rates.

Details of transaction volumes and outstanding balances are summarised below:

	As at 31 December 2018	As at 31 December 2017
On-balance sheet items		
Due from banks and other financial institutions	**2,250**	3,704
Loans to banks and other financial institutions	**–**	3,126
Derivative financial assets	**1,592**	2,399
Financial assets held under resale agreements	**–**	3,920
Interest receivable	**N.A.**	28
Financial investments – debt instruments at fair value through other comprehensive income	**4,410**	N.A.
Financial investments – available-for-sale	**N.A.**	2,315
Financial investments – debt instruments at amortised cost	**230**	N.A.
Financial investments – financial assets at fair value through profit or loss	**1,314**	1,388
Deposits from banks and other financial institutions	**1,289**	3,949
Loans from banks and other financial institutions	**13,298**	3,996
Financial liabilities at FVPL	**2,832**	2,861
Derivative financial liabilities	**760**	1,449
Financial assets sold under repurchase agreements	**1,807**	–
Interest payable	**N.A.**	34
Off-balance sheet items		
Notional principal of derivative financial instruments	**138,544**	163,191

	Year ended 31 December	
	2018	2017
Net gains from trading activities	**(984)**	(338)
Interest income	**162**	128
Interest expense	**348**	175

(All amounts expressed in millions of RMB unless otherwise stated)

43 RELATED PARTY TRANSACTIONS *(Continued)*

(c) Transactions with The Hong Kong and Shanghai Banking Corporation Limited and its subsidiaries ("HSBC") *(Continued)*

The interest rates of the transactions between the Group and HSBC are summarised below:

	Year ended 31 December	
	2018	2017
	%	%
Due from banks and other financial institutions	**0.01~2.84**	0.01~0.52
Loans to banks and other financial institutions	**0.20~3.55**	0.20~3.55
Financial investments	**1.50~6.68**	1.50~4.75
Deposits from banks and other financial institutions	**0.01~6.10**	0.01~6.10
Loans from banks and other financial institutions	**(0.01)~4.75**	(0.28)~4.30
Financial assets held under resale agreements	**2.73~5.60**	2.60~2.96
Financial assets sold under repurchase agreements	**2.34~5.30**	2.45~4.95

(d) Transactions with state-owned entities in PRC

The Group operates in an economic environment predominated by enterprises directly or indirectly owned and/or controlled by the Government through its authorities, affiliates or other organisations (collectively the "state-owned entities"). During the period, the Group entered into extensive banking transactions with these state-owned entities including, but not limited to, lending and deposit taking, taking and placing of interbank balances, entrusted lending and the provision of intermediary services, the sale, purchase, underwriting and redemption of bonds issued by other state-owned entities, and the sale, purchase, and leasing of properties and other assets.

Management considers that transactions with state-owned entities are activities conducted in the ordinary course of business, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and these state-owned entities are ultimately controlled or owned by the Government. The Group has also established pricing policies for products and services and such pricing policies do not depend on whether or not the customers are state-owned entities.

(All amounts expressed in millions of RMB unless otherwise stated)

43 RELATED PARTY TRANSACTIONS *(Continued)*

(e) Transactions with subsidiaries

The pricing of the transactions with subsidiaries is determined based on normal commercial banks.

Details of transaction volumes and outstanding balances are summarised below:

Bank	As at 31 December 2018	As at 31 December 2017
Due from banks and other financial institutions	**484**	150
Loans to banks and other financial institutions	**74,791**	38,402
Loans and advances to customers	**7,298**	20,691
Financial investments – debt instruments at amortised cost	**1,721**	N.A.
Financial investments – fair value through other comprehensive income	**–**	N.A.
Financial investments – held-to-maturity	**N.A.**	2,500
Financial investments – available-for-sale	**N.A.**	300
Interest receivable	**N.A.**	590
Other assets	**126**	1,972
Deposits from banks and other financial institutions	**19,904**	14,275
Loans from banks and other financial institutions	**10,255**	1,792
Due to customers	**2,201**	4,605
Debt securities issued	**51**	51
Interest payable	**N.A.**	36
Other liabilities	**31**	25

	Year ended 31 December	
Bank	2018	2017
Interest income	**2,291**	1,601
Interest expense	**603**	108
Fee and commission income	**1,063**	818
Fee and commission expense	**27**	39
Other operating income	**249**	110
Other operating expense	**174**	158

The interest rates of the transactions between the Bank and its subsidiaries are summarised below:

	Year ended 31 December	
Bank	2018	2017
	%	%
Due from banks and other financial institutions	**0.01~4.70**	0.72~4.67
Loans to banks and other financial institutions	**0.03~5.45**	0.09~5.55
Financial investments	**3.05~4.70**	3.05~6.10
Loans and advances to customers	**0.03~5.52**	0.02~4.18
Deposits from banks and other financial institutions	**0.01~5.50**	0.01~5.50
Loans from banks and other financial institutions	**(0.10)~5.45**	0.04~4.95
Due to customers	**0.01~4.16**	0.01~2.30
Debt securities issued	**5.75**	5.75

(All amounts expressed in millions of RMB unless otherwise stated)

43 RELATED PARTY TRANSACTIONS *(Continued)*

(f) Transactions with directors and senior management

The Group enters into transactions, including loans and deposits with directors, senior management and controlled bodies corporate of connected entities with such directors and senior management under the normal course of business and they mainly include deposits, which are carried out under commercial terms and paid at market rates.

Details of transaction volumes and outstanding balances are summarised below:

	As at 31 December 2018	As at 31 December 2017
Due to customers	**8**	32
Loans and advances to customers	**4**	1

Compensations of directors and senior management are disclosed in Note 12.

(g) Transactions with associates

The Group's investments in associates mainly include the investment in Jiangsu Changshu Rural Commercial Bank Co., Ltd. and Bank of Tibet Co., Ltd. Transactions between the Group and Associates are carried out under normal commercial terms and paid at market rates.

Details of transaction volumes and outstanding balances are summarised below:

	As at 31 December 2018	As at 31 December 2017
Deposits from banks and other financial institutions	**222**	1,689
Financial assets held under resale agreements	**–**	–
Due from banks and other financial institutions	**101**	–
Placements to banks and other financial institutions	**10**	–
Interest payable	**N.A.**	3

	Year ended 31 December	
	2018	2017
Interest income	**2**	2
Interest expense	**10**	27

The interest rates of the transactions between the Group and Associates are summarised below:

	Year ended 31 December	
	2018	2017
	%	%
Due from banks and other financial institutions	**2.84~3.88**	–
Deposits from banks and other financial institutions	**0.01~5.58**	1.35~5.58
Placements to banks and other financial institutions	**0.75**	2.31~2.88
Financial assets held under resale agreements	**2.66~2.75**	2.075~2.95

(All amounts expressed in millions of RMB unless otherwise stated)

43 RELATED PARTY TRANSACTIONS *(Continued)*

(h) Transactions with other related parties

Details of transaction volumes and outstanding balances are summarised below:

	As at 31 December 2018	As at 31 December 2017
Loans and advances to customers	**4,337**	5,052
Interest receivable of loans and advances to customers	**6**	N.A.
Interest receivable	**N.A.**	6
Deposits from banks and other financial institutions	**1,910**	1,224
Interest payable of deposits from banks and other financial institutions	**18**	N.A.
Interest payable	**N.A.**	19

	Year ended 31 December	
	2018	2017
Interest income	**218**	233
Interest expense	**87**	26

The interest rates of the transactions between the Group and Other related parties are summarised below:

	Year ended 31 December	
	2018	2017
	%	%
Loans and advances to customers	**3.915~5.22**	3.70~5.00
Deposits from banks and other financial institutions	**0.35~5.80**	2.45~5.80

44 SEGMENTAL ANALYSIS

The Group's senior management reviewed the Group's operation by the particular economic areas in which the Group's branches and subsidiaries provide products or services. The Group's operating segments are decided based upon location of the assets, as the Group's branches mainly serve local customers.

The reportable operating segments derive their revenue primarily from the commercial banking services provided to customers and investing activities, including deposits/loans, bills, trade finance, money market placements and takings and securities investments. The operating segments are:

(1) Northern China – including the following provinces: Beijing, Tianjin, Hebei, Shanxi, and Inner Mongolia;
(2) North Eastern China – including the following provinces: Liaoning, Jilin, and Heilongjiang;
(3) Eastern China – including the following provinces: Shanghai (excluding Head Office), Jiangsu, Zhejiang, Anhui, Fujian, Jiangxi and Shandong;
(4) Central and Southern China – including the following provinces: Henan, Hunan, Hubei, Guangdong, Guangxi and Hainan;
(5) Western China – including the following provinces: Chongqing, Sichuan, Guizhou, Yunnan, Tibet, Shaanxi, Gansu, Qinghai, Ningxia and Xinjiang;
(6) Head Office;
(7) Overseas – including overseas subsidiaries and the following branches: Hong Kong, New York, Singapore, Seoul, Tokyo, Frankfurt, Macau, Ho Chi Minh City, San Francisco, Sydney, United Kingdom, Toronto, Luxembourg, Brisbane, Taipei, Paris, Rome, Brazil and Melbourne.

There were no changes in the reportable segments during the year.

(All amounts expressed in millions of RMB unless otherwise stated)

44 SEGMENTAL ANALYSIS *(Continued)*

The revenue from external parties reported to the senior management is measured in a manner consistent with that in the condensed consolidated statement of profit or loss and other comprehensive income.

As the Group's major revenue is derived from interest and the senior management relies primarily on net interest income to assess the performance of the segment, the total interest income and expenses for all reportable segments will be presented on a net basis.

The basis under which the Group's senior management reviews the segment performance is profit before tax. Funds are ordinarily allocated between segments, resulting in funding cost transfers disclosed in inter-segment net interest income. Interest charged for these funds is based on the Group's cost of capital. There are no other material items of income or expenses between the segments.

Operating segment information

	Year ended 31 December 2018								
	Northern China	North Eastern China	Eastern China	Central and Southern China	Western China	Overseas	Head Office	Eliminations	Total
External interest income	28,500	9,630	78,890	43,787	21,811	29,276	136,970	–	348,864
External interest expense	(30,461)	(8,934)	(58,022)	(32,062)	(14,467)	(21,499)	(52,511)	–	(217,956)
Inter-segment net Interest income/(expense)	18,453	4,572	23,413	18,201	6,372	(426)	(70,585)	–	–
Net Interest income	16,492	5,268	44,281	29,926	13,716	7,351	13,874	–	130,908
Fee and commission income	4,342	1,623	13,606	8,160	3,221	3,350	10,371	–	44,673
Fee and commission expense	(226)	(53)	(1,508)	(285)	(153)	(351)	(860)	–	(3,436)
Net fee and commission income	4,116	1,570	12,098	7,875	3,068	2,999	9,511	–	41,237
Net gains/(losses) arising from trading activities	326	74	1,310	455	154	1,094	13,686	–	17,099
Net gains/(losses) arising from financial investments	–	–	149	–	–	282	(141)	–	290
Insurance business income	–	–	7,446	–	–	35	–	–	7,481
Share of profit of associates and joint venture	–	–	–	–	–	13	214	–	227
Other operating income	1,166	218	10,412	804	591	1,511	1,111	–	15,813
Total operating income -net	22,100	7,130	75,696	39,060	17,529	13,285	38,255	–	213,055
Credit impairment losses	(2,395)	(7,716)	(10,425)	(5,516)	(4,855)	(399)	(12,148)	–	(43,454)
Other assets impairment losses	–	–	(27)	(24)	–	(9)	–	–	(60)
Insurance business expense	–	–	(6,712)	–	–	(10)	–	–	(6,722)
Other operating expense	(7,234)	(3,321)	(25,618)	(11,252)	(5,980)	(4,968)	(18,379)	–	(76,752)
Profit before tax	12,471	(3,907)	32,914	22,268	6,694	7,899	7,728	–	86,067
Income tax									(11,902)
Net profit for the year									74,165
Depreciation and amortisation	(734)	(335)	(1,683)	(1,052)	(611)	(235)	(1,027)	–	(5,677)
Capital expenditure	(361)	(170)	(27,597)	(974)	(665)	(780)	(798)	–	(31,345)

(All amounts expressed in millions of RMB unless otherwise stated)

44 SEGMENTAL ANALYSIS *(Continued)*

Operating segment information *(Continued)*

	Year ended 31 December 2017								
	Northern China	North Eastern China	Eastern China	Central and Southern China	Western China	Overseas	Head Office	Eliminations	Total
External interest income	26,790	9,374	71,906	38,861	20,626	20,414	126,229	–	314,200
External interest expense	(32,819)	(8,792)	(58,026)	(33,832)	(14,144)	(13,250)	(28,464)	–	(189,327)
Inter-segment net Interest income/(expense)	23,116	4,984	25,232	21,602	6,651	(400)	(81,185)	–	–
Net Interest income	17,087	5,566	39,112	26,631	13,133	6,764	16,580	–	124,873
Fee and commission income	4,831	1,715	14,556	8,849	3,414	2,926	7,769	–	44,060
Fee and commission expense	(373)	(83)	(1,975)	(429)	(245)	(298)	(106)	–	(3,509)
Net fee and commission income	4,458	1,632	12,581	8,420	3,169	2,628	7,663	–	40,551
Net gains/(losses) arising from trading activities	279	59	942	432	90	189	105	–	2,096
Net gains/(losses) arising from financial investments	–	–	556	70	–	425	2,033	–	3,084
Insurance business income	–	–	12,932	–	–	36	–	–	12,968
Share of profit of associates and joint venture	–	–	–	–	–	(5)	137	–	132
Other operating income	1,285	204	8,192	819	453	1,489	374	–	12,816
Total operating income – net	23,109	7,461	74,315	36,372	16,845	11,526	26,892	–	196,520
Assets impairment losses	(2,398)	(1,690)	(14,612)	(3,875)	(3,762)	(281)	(4,851)	–	(31,469)
Insurance business expense	–	–	(12,198)	–	–	(13)	–	–	(12,211)
Other operating expense	(7,243)	(3,314)	(21,414)	(11,089)	(5,311)	(4,323)	(16,881)	–	(69,575)
Profit before tax	13,468	2,457	26,091	21,408	7,772	6,909	5,160	–	83,265
Income tax									(12,574)
Net profit for the year									70,691
Depreciation and amortisation	(787)	(383)	(1,762)	(1,120)	(658)	(195)	(973)	–	(5,878)
Capital expenditure	(411)	(179)	(24,075)	(1,049)	(590)	(394)	(2,107)	–	(28,805)

(All amounts expressed in millions of RMB unless otherwise stated)

44 SEGMENTAL ANALYSIS *(Continued)*

Operating segment information *(Continued)*

	As at 31 December 2018								
	Northern China	North Eastern China	Eastern China	Central and Southern China	Western China	Overseas	Head Office	Eliminations	Total
Segment assets	**1,157,867**	**339,827**	**2,669,816**	**1,434,255**	**688,096**	**1,006,195**	**4,224,506**	**(2,011,366)**	**9,509,196**
Including:									
Investments in associates and joint venture	**–**	**–**	***4***	***7***	**–**	***67***	***3,575***	**–**	***3,653***
Unallocated assets									**21,975**
Total assets									**9,531,171**
Segment liabilities	**(1,140,638)**	**(342,636)**	**(2,534,865)**	**(1,399,199)**	**(681,169)**	**(991,077)**	**(3,747,047)**	**2,011,366**	**(8,825,265)**
Unallocated liabilities									**(598)**
Total liabilities									**(8,825,863)**

	As at 31 December 2017								
	Northern China	North Eastern China	Eastern China	Central and Southern China	Western China	Overseas	Head Office	Eliminations	Total
Segment assets	1,278,373	365,648	2,692,078	1,523,081	727,652	939,297	4,077,988	(2,582,319)	9,021,798
Including:									
Investments in associates and joint venture	–	–	*4*	*6*	–	*82*	*3,265*	–	*3,357*
Unallocated assets									16,456
Total assets									9,038,254
Segment liabilities	(1,265,063)	(363,044)	(2,597,457)	(1,493,665)	(721,874)	(931,308)	(3,571,371)	2,582,319	(8,361,463)
Unallocated liabilities									(520)
Total liabilities									(8,361,983)

(All amounts expressed in millions of RMB unless otherwise stated)

44 SEGMENTAL ANALYSIS *(Continued)*

Business Information

The Group is engaged predominantly in banking and related financial activities. It comprises corporate banking, personal banking, treasury and other business. Corporate banking mainly comprises corporate loans, bills, trade finance, corporate deposits and remittance. Personal banking mainly comprises individual loans, individual deposits, credit cards and remittance. Treasury mainly comprises money market placements and takings, financial investment, and securities sold under repurchase agreements. The “Others Business” segment mainly comprises items which cannot be categorised in the above business segments.

The business information of the Group is summarised as follows:

	As at 31 December 2018				
	Corporate Banking Business	Personal Banking Business	Treasury Business	Other Business	Total
External net interest income	49,626	41,747	37,302	2,233	130,908
Inter-segment net interest income/(expense)	19,847	8,946	(28,793)	–	–
Net interest income	69,473	50,693	8,509	2,233	130,908
Net fee and commission income	14,322	24,131	603	2,181	41,237
Net gains/(losses) arising from trading activities	2,585	(53)	13,876	691	17,099
Net gains/(losses) arising from financial investments	–	–	290	–	290
Share of profit of associates and joint venture	–	–	–	227	227
Insurance business income	–	–	–	7,481	7,481
Other operating income	11,508	3,130	2	1,173	15,813
Total operating income – net	97,888	77,901	23,280	13,986	213,055
Impairment losses on loans and advances to customers	(29,726)	(13,607)	141	(262)	(43,454)
Other assets impairment losses	(34)	–	–	(26)	(60)
Insurance business expense	–	–	–	(6,722)	(6,722)
Other operating expense					
– Depreciation and amortisation	(1,708)	(3,581)	(125)	(263)	(5,677)
– Others	(28,641)	(36,093)	(2,467)	(3,874)	(71,075)
Profit before tax	37,779	24,620	20,829	2,839	86,067
Income tax					(11,902)
Net profit for the year					74,165
Depreciation and amortisation	(1,708)	(3,581)	(125)	(263)	(5,677)
Capital expenditure	(9,430)	(19,775)	(688)	(1,452)	(31,345)

(All amounts expressed in millions of RMB unless otherwise stated)

44 SEGMENTAL ANALYSIS *(Continued)*

Business Information *(Continued)*

	Year ended 31 December 2017				
	Corporate Banking Business	Personal Banking Business	Treasury Business	Other Business	Total
External net interest income	50,787	32,986	39,151	1,949	124,873
Inter-segment net interest income/(expense)	17,685	12,273	(29,958)	–	–
Net interest income	68,472	45,259	9,193	1,949	124,873
Net fee and commission income	16,034	20,229	2,483	1,805	40,551
Net gains/(losses) arising from trading activities	1,959	99	(511)	549	2,096
Net gains arising from financial investments	–	–	3,084	–	3,084
Share of profit of associates and joint venture	–	–	–	132	132
Insurance business income	–	–	–	12,968	12,968
Other operating income	9,064	2,308	10	1,434	12,816
Total operating income – net	95,529	67,895	14,259	18,837	196,520
Assets impairment losses	(27,687)	(3,447)	(221)	(114)	(31,469)
Insurance business expense	–	–	–	(12,211)	(12,211)
Other operating expense					
– Depreciation and amortisation	(1,769)	(3,708)	(129)	(272)	(5,878)
– Others	(24,590)	(33,420)	(2,461)	(3,226)	(63,697)
Profit before tax	41,483	27,320	11,448	3,014	83,265
Income tax					(12,574)
Net profit for the year					70,691
Depreciation and amortisation	(1,769)	(3,708)	(129)	(272)	(5,878)
Capital expenditure	(8,667)	(18,172)	(632)	(1,334)	(28,805)

	As at 31 December 2018				
	Corporate Banking Business	**Personal Banking Business**	**Treasury Business**	**Other Business**	**Total**
Segment assets	**3,181,294**	**1,721,526**	**4,529,647**	**76,729**	**9,509,196**
Including:					
Investments in associates and joint venture	**–**	**–**	**–**	***3,653***	***3,653***
Unallocated assets					**21,975**
Total assets					**9,531,171**
Segment liabilities	**(4,247,625)**	**(1,806,316)**	**(2,742,362)**	**(28,962)**	**(8,825,265)**
Unallocated assets					**(598)**
Total liabilities					**(8,825,863)**

(All amounts expressed in millions of RMB unless otherwise stated)

44 SEGMENTAL ANALYSIS *(Continued)*

Business Information *(Continued)*

	As at 31 December 2017				
	Corporate Banking Business	Personal Banking Business	Treasury Business	Other Business	Total
Segment assets	3,145,789	1,487,329	4,307,392	81,288	9,021,798
Including:					
Investments in associates and joint venture	–	–	–	*3,357*	*3,357*
Unallocated assets					16,456
Total assets					9,038,254
Segment liabilities	(3,621,436)	(1,606,949)	(3,110,385)	(22,693)	(8,361,463)
Unallocated assets					(520)
Total liabilities					(8,361,983)

There were no significant transactions with a single external customer that the Group mainly relied on.

45 FINANCIAL STATEMENTS OF THE BANK

(a) Statement of Financial Position of the Bank

Bank	**As at 31 December 2018**	As at 31 December 2017
ASSETS		
Cash and balances with central banks	**835,960**	937,800
Due from banks and other financial institutions	**895,393**	809,651
Derivative financial assets	**29,447**	33,935
Loans and advances to customers	**4,556,775**	4,354,253
Financial investments – financial assets at fair value through profit or loss	**356,351**	222,637
Financial investments – debt instruments at amortised cost	**1,982,351**	N.A.
Financial investments – debt instruments at FVOCI	**319,198**	N.A.
Financial investments – equity investments at FVOCI	**5,724**	N.A.
Financial investments – available-for-sale	**N.A.**	374,858
Financial investments – held-to-maturity	**N.A.**	1,509,592
Financial investments – loans and receivables	**N.A.**	376,161
Investment in associates and joint venture	**3,454**	3,264
Property and equipment	**52,740**	53,333
Investments in subsidiaries	**46,110**	29,982
Deferred income tax assets	**20,580**	15,211
Other assets	**43,710**	106,608
Total assets	**9,147,793**	8,827,285

(All amounts expressed in millions of RMB unless otherwise stated)

45 FINANCIAL STATEMENTS OF THE BANK *(Continued)*

(a) Statement of Financial Position of the Bank *(Continued)*

	As at 31 December 2018	As at 31 December 2017
Liabilities		
Due to banks and other financial institutions	**2,092,370**	2,028,416
Financial liabilities at fair value through profit or loss	**23,109**	26,964
Derivative financial liabilities	**28,801**	33,294
Due to customers	**5,644,733**	5,543,520
Certificates of deposits issued	**360,766**	145,088
Current tax liabilities	**1,101**	7,133
Deferred income tax liabilities	**46**	253
Debt securities issued	**244,163**	233,396
Other liabilities	**77,887**	155,265
Total liabilities	**8,472,976**	8,173,329
Equity		
Share capital	**74,263**	74,263
Preference shares	**59,876**	59,876
Capital surplus	**113,427**	113,427
Other reserves	**313,760**	293,846
Retained earnings	**113,491**	112,544
Total equity	**674,817**	653,956
Total equity and liabilities	**9,147,793**	8,827,285

The financial statements of the Bank were approved and authorised for issuance by the Board of Directors on 29 March 2019 and signed on its behalf by:

Chairman and Executive Director: Peng Chun

Vice Chairman, Executive Director and President: Ren Deqi

(All amounts expressed in millions of RMB unless otherwise stated)

45 FINANCIAL STATEMENTS OF THE BANK *(Continued)*

(b) Statement of Changes in Equity of the Bank

				Other reserves										
	Share capital	Preference shares	Capital surplus	Statutory reserve	Discretionary reserve	Statutory general reserve	Revaluation reserve for financial assets at fair value through other comprehensive income/ Financial investments – available-for-sale	Revaluation reserve for the changes in credit risk of the financial liabilities measured at designated FVPL	Cash flow hedge reserve	Translation reserve on foreign operations	Actuarial changes reserve	Others	Retained earnings	Total
Balance at 31 December 2017	74,263	59,876	113,427	56,239	139,764	100,012	(2,053)	N.A.	(5)	(1,473)	35	1,327	112,544	653,956
Impact on adoption of IFRS 9	–	–	–	–	–	–	1,797	(6)	–	–	–	–	(28,012)	(26,221)
Balance at 1 January 2018 (restated)	74,263	59,876	113,427	56,239	139,764	100,012	(256)	(6)	(5)	(1,473)	35	1,327	84,532	627,735
Net profit for the year	–	–	–	–	–	–	–	–	–	–	–	–	68,324	68,324
Other comprehensive income	–	–	–	–	–	–	1,503	(14)	34	1,069	(25)	18	–	2,585
Total comprehensive income	–	–	–	–	–	–	1,503	(14)	34	1,069	(25)	18	68,324	70,909
Dividends paid to ordinary shares	–	–	–	–	–	–	–	–	–	–	–	–	(21,209)	(21,209)
Dividends paid to preference shares	–	–	–	–	–	–	–	–	–	–	–	–	(2,618)	(2,618)
Transfer to reserves	–	–	–	6,833	–	8,705	–	–	–	–	–	–	(15,538)	–
Balance at 31 December 2018	74,263	59,876	113,427	63,072	139,764	108,717	1,247	(20)	29	(404)	10	1,345	113,491	674,817
Balance at 1 January 2017	74,263	59,876	113,433	49,618	139,764	83,896	1,766	N.A.	(119)	61	4	1,336	91,922	615,820
Net profit for the year	–	–	–	–	–	–	–	N.A.	–	–	–	–	66,214	66,214
Other comprehensive income	–	–	–	–	–	–	(3,819)	N.A.	114	(1,534)	31	(9)	–	(5,217)
Total comprehensive income	–	–	–	–	–	–	(3,819)	N.A.	114	(1,534)	31	(9)	66,214	60,997
Dividends paid to ordinary shares	–	–	–	–	–	–	–	N.A.	–	–	–	–	(20,162)	(20,162)
Dividends paid to preference shares	–	–	–	–	–	–	–	N.A.	–	–	–	–	(2,693)	(2,693)
Transfer to reserves	–	–	–	6,621	–	16,116	–	N.A.	–	–	–	–	(22,737)	–
Others	–	–	(6)	–	–	–	–	N.A.	–	–	–	–	–	(6)
Balance at 31 December 2017	74,263	59,876	113,427	56,239	139,764	100,012	(2,053)	N.A.	(5)	(1,473)	35	1,327	112,544	653,956

46 NON-ADJUSTING EVENT AFTER REPORTING PERIOD

In accordance with the resolution and authorization of the 16th meeting of the 8th Session of Board of Directors of the Bank, the Bank was approved to set up the wholly-owned subsidiary, BoCom Asset Management Co., Ltd. On 7 January 2019, the Bank received the *Approval from the China Banking and Insurance Regulatory Commission Concerning the Establishment of BoCom Asset Management Co., Ltd.*The subsidiary will apply for opening according to the related regulations and procedures after the preparation.

In March 2019, the Bank's Hong Kong Branch issued three medium term notes with the face value of RMB2.5 billion due 2021, USD0.8 billion due 2022 and HKD3.5 billion due 2024 respectively.

In March 2019, the Board of Directors of the Bank approved the issuance of write-down non-fixed-term capital bonds with a total amount of no more than RMB40.0 billion or equivalent foreign currencies.The matter still requires to be submitted to the Shareholders' General Meeting for approval.

In March 2019, the Board of Directors of the Bank approved the issurance of ordinary financial bonds with a total amount of no more than RMB90.0 billion.

In March 2019, the Board of Directors of the Bank approved to increase the capital of not exceeding RMB5.5 billion to BoCom Leasing, a wholly-owned subsidiary of the Bank and approved BoCom Leasing to increase the capital of not exceeding RMB5.5 billion to its wholly-owned subsidiary, BoCom Aviation and Shipping. The matter is still waiting for the approval of related regulatory authorities.

羅兵咸永道

To The Shareholders of Bank of Communications Co., Ltd.
(Incorporated in the People's Republic of China with limited liability)

OPINION

What we have audited

The consolidated financial statements of Bank of Communications Co., Ltd. (the "Bank") and its subsidiaries (the "Group") set out on pages 178 to 320, which comprise:

- the consolidated statement of financial position as at 31 December 2019;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KEY AUDIT MATTERS *(Continued)*

Key audit matters identified in our audit are summarised as follows:

1. Expected credit impairment allowance of loans and advances to customers, financial investments at amortised cost and financial guarantees and loan commitments

2. Consolidation assessment of structured entities

Key Audit Matter

Expected credit impairment allowance of loans and advances to customers, financial investments at amortised cost and financial guarantees and loan commitments

Refer to Notes 2.4, 2.30(a), 3.1.1(a), 3.1.1(b), 3.1.1(c), 3.1.2, 3.1.3.1, 20 and 21 to the Group's consolidated financial statements.

As at 31 December 2019, the Group's gross loans and advances to customers and accrued interest amounted to RMB5,318,923 million, and a loss allowance of RMB135,270 million was recognised in the Group's consolidated statement of financial position; the amount of financial investments at amortised cost and accrued interest was RMB1,932,952 million and a loss allowance of RMB3,263 million was recognised; the exposure of loan commitments and financial guarantees was RMB1,472,170 million, for which a provision of RMB6,332 million was recognised.

The balances of loss allowances for loans and advances to customers, and financial investments at amortised cost and provision for financial guarantees and loan commitments represent the management's best estimates at the balance sheet date of expected credit losses under International Financial Reporting Standard 9: Financial Instruments expected credit losses models ("ECL Models").

The Group assesses whether the credit risk of loans and advances to customers and financial investments at amortised cost and financial guarantees and loan commitments have increased significantly since their initial recognition, and apply a three-stage impairment model to calculate their ECL. For corporate loans and advances classified into stages 1 and 2, and those in stage 3 without using discounted cash flow model ("DCF") to calculate ECL, all personal loans and advances, financial investments at amortised cost and financial guarantees and loan commitments, the management assesses loss allowance using the risk parameter modelling approach that incorporates key parameters, including probability of default, loss given default, exposure at default and discount rates. For corporate loans in stage 3 using DCF, the management assesses loss allowance by estimating the cash flows from the loans.

How our audit addressed the Key Audit Matter

We evaluated and tested the design and operational effectiveness of the internal controls relating to the measurement of expected credit losses for loans and advances to customers, financial investments at amortised cost and financial guarantees and loan commitments, primarily including:

(1) Management over ECL models, including the selection, approval and application of modelling methodology; and the internal controls relating to the on going monitoring and optimization of the models;

(2) Internal controls relating to significant management judgments and assumptions, including the review and approval of portfolio segmentation, model selections, parameters estimation, significant increase in credit risk, or of defaults or credit-impaired, forward-looking and management overlay adjustments;

(3) Internal controls over the accuracy and completeness of key inputs used by the models;

(4) Internal controls relating the accuracy of allowance for impairment losses for corporate loans and advances in stage 3;

(5) Internal controls over the information systems for model-based measurement.

The substantive procedures we preformed, primarily including:

We reviewed the modelling methodologies for ECL measurement, and assessed the reasonableness of the portfolio segmentation, models selection, key parameters estimation, significant judgements and assumptions in relation to the models. We tested whether or not the measurement models reflect the modelling methodologies documented by the management on a sample basis.

KEY AUDIT MATTERS *(Continued)*

Key Audit Matter

Expected credit impairment allowance of loans and advances to customers, financial investments at amortised cost and financial guarantees and loan commitments (Continued)

The measurement models of expected credit losses involves significant management judgments and assumptions, primarily including the following:

(1) Segmentation of business operations sharing similar credit risk characteristics, selection of appropriate models and determination of relevant key measurement parameters;

(2) Criteria for determining whether or not there was a significant increase in credit risk, or a default or impairment loss was incurred;

(3) Economic indicators for forward-looking measurement, and the application of economic scenarios and weightings;

(4) Management overlay adjustments due to significant uncertain factors not covered in the models;

(5) The estimated future cash flows for corporate loans and advances in stage 3.

The Group established controls for the measurement of expected credit losses.

For measuring expected credit losses, the Group adopted complex models, employed numerous parameters and data inputs, and applied significant management judgments and assumptions. In addition, the loans and advances to customers, financial guarantees and exposures of loan commitments and financial investments at amortised cost, the loss allowance and provision accrued involve significant amounts. In view of these reasons, we identified this as a key audit matter.

How our audit addressed the Key Audit Matter

We selected samples, in consideration of the financial information and non-financial information of the borrowers, relevant external evidence and other factors, to assess the appropriateness of the management's identification of significant increase in credit risk, defaults and credit-impaired loans.

For forward-looking measurement, we reviewed the management's model analysis of their selection of economic indicators; economic scenarios and weightings employed, assessed the reasonableness of the prediction of economic indicators and performed sensitivity analysis of economic indicators, economic scenarios and weightings.

In addition, we assessed the reasonableness of the selection of significant uncertain factors, its application and measurement in the management overlay adjustments, and examined the accuracy of the relevant mathematical calculations.

We examined major data inputs to the ECL models on selected samples, including historical data and data at the measurement date, to assess their accuracy and completeness.

For corporate loans and advances in stage 3, we examined, on a sample basis, forecasted future cash flows prepared by the Group based on financial information of borrowers and guarantors, latest collateral valuations and other available information together with discount rates in supporting the computation of loss allowance.

Based on our procedures performed, in the context of the inherent uncertainties associated with measurement of expected credit losses for loans and financial guarantees and advances to customers, loan commitments and financial investments at amortised cost, the models, key parameters, significant judgement and assumptions adopted by management and the measurement results were considered acceptable.

KEY AUDIT MATTERS *(Continued)*

Key Audit Matter

Consolidation assessment of structured entities

Refer to Notes 2.2, 2.30(d), 41 and 42 to the Group's consolidated financial statements.

The Group has managed or invested in a number of structured entities. As at 31 December 2019, the carrying amount of unconsolidated structured entities invested by the Group amounted to RMB309,748 million. In addition, as at 31 December 2019, unconsolidated structured entities sponsored and managed by the Group amounted to RMB2,254,828 million.

Management performed assessment on each of the three elements of control (power to direct relevant activities of structured entities, exposure to variable returns and the Group's ability to use its power to affect its variable returns from the structured entities) in determining whether structured entities managed or invested in by the Group should be consolidated or not. In performing the assessment, significant judgment was involved to determine the role of the Group in the arrangement as either a principal or an agent. If the Group acts as a principal, the structured entities should be consolidated.

We focused on this area because the amount of the Group's structured entities was significant and the consolidation assessment of these structured entities involved significant judgments.

How our audit addressed the Key Audit Matter

We understood, evaluated and validated the design and operating effectiveness of relevant controls over management's assessment of consolidation of structured entities.

In addition, we selected a sample of the structured entities that the Group invested in or managed, and performed the following procedures on management's assessment of consolidation of structured entities:

(1) Analysed the transaction structures, inspected related contract terms, and evaluated whether the Group had the power to direct the relevant activities of these structured entities;

(2) Inspected contract terms related to the Group's variable returns from these selected structured entities, including management fee, expected investment returns and returns from liquidity support, and agreed this information to the corresponding inputs used in management's assessment;

(3) Recalculated the magnitude and variability of the variable returns to the Group from these structured entities based on contract terms;

(4) We assessed the Group's role in these structured entities as a principal or an agent through analysis of the scope of its decision-making authority over the structured entities, the remuneration to which the Group was entitled for its management services provided to the structured entities, its exposure to variability of returns from other interests that it holds in them, and the rights held by other parties, and compared our assessment results with management's assessment outcomes.

Based on the work undertaken above, we found the overall consolidation assessment of structured entities performed by management acceptable.

OTHER INFORMATION

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional 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.

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 those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

The engagement partner on the audit resulting in this independent auditor's report is Ling Tung Man, Tom.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 27 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(All amounts expressed in millions of RMB unless otherwise stated)

	Notes	Year ended 31 December 2019	2018
Interest income		**367,453**	348,864
Interest expense		**(223,370)**	(217,956)
Net interest income	4	**144,083**	130,908
Fee and commission income	5	**47,669**	44,673
Fee and commission expense	6	**(4,044)**	(3,436)
Net fee and commission income		**43,625**	41,237
Net gains arising from trading activities	7	**15,936**	17,099
Net gains arising from financial investments		**313**	290
Including: Net losses on derecognition of financial assets measured at amortised cost		***(281)***	*(132)*
Share of profits of associates and joint ventures		**414**	227
Insurance business income		**11,687**	7,481
Other operating income	8	**16,799**	15,813
Credit impairment losses	9	**(51,954)**	(43,454)
Other assets impairment losses	10	**(270)**	(60)
Insurance business expense		**(11,432)**	(6,722)
Other operating expenses	11	**(81,001)**	(76,752)
Profit before tax		**88,200**	86,067
Income tax	14	**(10,138)**	(11,902)
Net profit for the year		**78,062**	74,165
Other comprehensive income, net of tax			
Items that may be reclassified subsequently to profit or loss:			
Loans and advances to customers at fair value through other comprehensive income			
Amount recognised directly in equity		***(335)***	*102*
Amount reclassified to profit or loss		***(378)***	*–*
Debt investments at fair value through other comprehensive income			
Amount recognised directly in equity		***3,715***	*2,086*
Amount reclassified to profit or loss		***(395)***	*(171)*
Effective portion of gains or losses on hedging instruments in cash flow hedges			
Changes in fair value recorded in equity		***(156)***	*110*
Changes in fair value reclassified from equity to profit or loss		***147***	*(93)*
Others		**18**	18
Translation difference on foreign operations		**1,141**	1,998
		3,757	4,050

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME *(Continued)*

(All amounts expressed in millions of RMB unless otherwise stated)

	Notes	Year ended 31 December 2019	2018
Items that will not be reclassified subsequently to profit or loss:			
Changes in fair value of equity investments designated at fair value through other comprehensive income		**(560)**	61
Actuarial losses on pension benefits		**(20)**	(25)
Changes in fair value attributable to changes in the credit risk of financial liability designated at fair value through profit or loss		**25**	(14)
Other comprehensive income, net of tax	39	**3,202**	4,072
Total Comprehensive income for the year		**81,264**	78,237
Net profit attributable to:			
Shareholders of the Bank		**77,281**	73,630
Non-controlling interests		**781**	535
		78,062	74,165
Total comprehensive income attributable to:			
Shareholders of the Bank		**80,414**	77,461
Non-controlling interests		**850**	776
		81,264	78,237
Basic and diluted earnings per share for profit attributable to the shareholders of the Bank (in RMB yuan)	15	**1.00**	0.96

The accompanying notes form a part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(All amounts expressed in millions of RMB unless otherwise stated)

	Notes	As at 31 December 2019	As at 31 December 2018
ASSETS			
Cash and balances with central banks	16	**760,185**	840,171
Due from and placements with banks and other financial institutions	17	**648,488**	848,067
Derivative financial assets	19	**20,937**	30,730
Loans and advances to customers	20	**5,183,653**	4,742,372
Financial investments at fair value through profit or loss	18	**406,498**	376,386
Financial investments at amortised cost	21	**1,929,689**	2,000,505
Financial investments at fair value through other comprehensive income	21	**669,656**	445,018
Investments in associates and joint ventures	23	**4,600**	3,653
Property and equipment	24	**171,179**	153,286
Deferred income tax assets	25	**24,065**	21,975
Other assets	26	**86,650**	69,008
Total assets		**9,905,600**	9,531,171
LIABILITIES			
Due to and placements from banks and other financial institutions	27	**1,904,082**	2,162,293
Financial liabilities at fair value through profit or loss	28	**26,980**	23,109
Derivative financial liabilities	19	**26,424**	28,105
Due to customers	29	**6,072,908**	5,793,324
Certificates of deposits issued	30	**498,991**	366,753
Current income tax liabilities		**7,086**	2,279
Deferred income tax liabilities	25	**918**	598
Debt securities issued	31	**403,918**	317,688
Other liabilities	32	**163,381**	131,714
Total liabilities		**9,104,688**	8,825,863
EQUITY			
Share capital	33	**74,263**	74,263
Other equity instruments	34	**99,870**	59,876
Including: Preference shares		***59,876***	*59,876*
Perpetual bonds		***39,994***	–
Capital surplus	33	**113,663**	113,663
Other reserves		**328,310**	321,442
Retained earnings		**177,141**	129,161
Equity attributable to shareholders of the Bank		**793,247**	698,405
Non-controlling interests		**7,665**	6,903
Total equity		**800,912**	705,308
Total equity and liabilities		**9,905,600**	9,531,171

The consolidated financial statements were approved and authorised for issuance by the Board of Directors on 27 March 2020 and signed on its behalf by:

Chairman, Executive Director and President: Ren Deqi Executive Director and Vice President: Hou Weidong

The accompanying notes form a part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(All amounts expressed in millions of RMB unless otherwise stated)

					Other reserves												
	Share capital Note 33	Preference shares Note 34	Perpetual bonds Note 34	Capital surplus Note 33	Statutory reserve Note 35	Discretionary reserve Note 35	Statutory general reserve Note 35	Revaluation reserve for financial assets at fair value through other comprehensive income Note 35	Revaluation reserve for the changes in credit risk of the financial liabilities designated at fair value through profit or loss	Effective portion of gains or losses on hedging instruments in cash flow hedges	Translation reserve on foreign operations	Actuarial changes reserve	Others	Retained earnings Note 35,36	Attributable to the shareholders of the Bank	Non-controlling interests	Total
As at 31 December 2018	74,263	59,876	-	113,663	64,516	139,796	114,281	1,397	(20)	24	93	10	1,345	129,161	698,405	6,903	705,308
Impact of adoption of IFRS 16	-	-	-	-	-	-	-	-	-	-	-	-	-	(616)	(616)	(7)	(623)
As at 1 January 2019 (restated)	74,263	59,876	-	113,663	64,516	139,796	114,281	1,397	(20)	24	93	10	1,345	128,545	697,789	6,896	704,685
Net profit for the period	-	-	-	-	-	-	-	-	-	-	-	-	-	77,281	77,281	781	78,062
Other comprehensive income	-	-	-	-	-	-	-	2,013	25	(9)	1,106	(20)	18	-	3,133	69	3,202
Total comprehensive income	-	-	-	-	-	-	-	2,013	25	(9)	1,106	(20)	18	77,281	80,414	850	81,264
Capital contribution by other equity instruments holders	-	-	39,994	-	-	-	-	-	-	-	-	-	-	-	39,994	-	39,994
Dividends paid to ordinary shares	-	-	-	-	-	-	-	-	-	-	-	-	-	(22,279)	(22,279)	(81)	(22,360)
Dividends paid to preference shares	-	-	-	-	-	-	-	-	-	-	-	-	-	(2,671)	(2,671)	-	(2,671)
Transfer to reserves	-	-	-	-	381	57	3,286	-	-	-	-	-	-	(3,724)	-	-	-
Transferred from other comprehensive income	-	-	-	-	-	-	-	11	-	-	-	-	-	(11)	-	-	-
As at 31 December 2019	74,263	59,876	39,994	113,663	64,897	139,853	117,567	3,421	5	15	1,199	(10)	1,363	177,141	793,247	7,665	800,912
As at 31 December 2017	74,263	59,876	-	113,663	57,461	139,767	104,470	(2,365)	Not applicable	7	(1,875)	35	1,327	124,514	671,143	5,128	676,271
Impact of adoption of IFRS 9	-	-	-	-	-	-	-	1,891	(6)	-	-	-	-	(28,257)	(26,372)	(54)	(26,426)
As at 1 January 2018 (restated)	74,263	59,876	-	113,663	57,461	139,767	104,470	(474)	(6)	7	(1,875)	35	1,327	96,257	644,771	5,074	649,845
Net profit for the year	-	-	-	-	-	-	-	-	-	-	-	-	-	73,630	73,630	535	74,165
Other comprehensive income	-	-	-	-	-	-	-	1,867	(14)	17	1,968	(25)	18	-	3,831	241	4,072
Total comprehensive income	-	-	-	-	-	-	-	1,867	(14)	17	1,968	(25)	18	73,630	77,461	776	78,237
Capital contribution by other equity instruments holders	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,125	1,125
Dividends paid to ordinary shares	-	-	-	-	-	-	-	-	-	-	-	-	-	(21,209)	(21,209)	(72)	(21,281)
Dividends paid to preference shares	-	-	-	-	-	-	-	-	-	-	-	-	-	(2,618)	(2,618)	-	(2,618)
Transfer to reserves	-	-	-	-	7,055	29	9,811	-	-	-	-	-	-	(16,895)	-	-	-
Transferred from other comprehensive income	-	-	-	-	-	-	-	4	-	-	-	-	-	(4)	-	-	-
As at 31 December 2018	74,263	59,876	-	113,663	64,516	139,796	114,281	1,397	(20)	24	93	10	1,345	129,161	698,405	6,903	705,308

The accompanying notes form a part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

(All amounts expressed in millions of RMB unless otherwise stated)

	Notes	Year ended 31 December 2019	2018
Cash flows from operating activities:			
Net profit before tax:		**88,200**	86,067
Adjustments for:			
Provision for impairment losses		**51,954**	43,454
Provision for other assets impairment losses		**270**	60
Provision for insurance contracts reserve		**9,115**	1,393
Depreciation and amortisation		**13,982**	10,250
Provision for outstanding litigation and unsettled obligation		**50**	549
Net gains on the disposal of property, equipment and other assets		**(287)**	(15)
Interest income from financial investments		**(88,647)**	(85,449)
Unwind of discount on allowances during the year		**(1,467)**	(1,618)
Fair value losses/(gains)		**1,027**	(6,527)
Share of profit of associates and joint venture		**(414)**	(227)
Net gains arising from financial investments		**(313)**	(290)
Interest expense on debt securities issued		**11,519**	11,992
Operating cash flows before movements in operating assets and liabilities		**84,989**	59,639
Net decrease in balances with central banks		**41,487**	106,039
Net decrease/(increase) in due from and placements with banks and other financial institutions		**160,720**	(52,257)
Net increase in financial assets at fair value through profit or loss		**(24,219)**	(88,330)
Net increase in loans and advances to customers		**(491,230)**	(326,960)
Net decrease/(increase) in other assets		**(27,120)**	4,266
Net increase/(decrease) in due to and placements from banks and other financial institutions		**(239,042)**	23,496
Net increase/(decrease) in financial liabilities at fair value through profit or loss		**3,491**	(5,013)
Net increase in due to customers		**414,859**	393,174
Net increase in other liabilities		**2,220**	23,415
Net increase in value-added tax and surcharge payable		**21**	576
Income tax paid		**(8,721)**	(14,153)
Net cash flows generated from/(used in) operating activities		**(82,545)**	123,892

CONSOLIDATED STATEMENT OF CASH FLOWS *(Continued)*

(All amounts expressed in millions of RMB unless otherwise stated)

	Notes	Year ended 31 December 2019	2018
Cash flows from investing activities:			
Purchase of financial investments		**(705,173)**	(694,169)
Disposal or redemption of financial investments		**565,819**	542,954
Dividends received		**537**	379
Interest received from financial investments		**86,428**	81,294
Acquisition of intangible assets and other assets		**(1,822)**	(694)
Disposal of intangible assets and other assets		**350**	124
Purchase and construction of property and equipment		**(30,554)**	(30,649)
Disposal of property and equipment		**2,607**	621
Net cash flows used in investing activities		**(81,808)**	(100,140)
Cash flows from financing activities:			
Cash received from issuing other equity instruments		**39,994**	–
Cash received on debt securities issued		**168,271**	41,846
Capital contribution by non-controlling interests		**–**	1,125
Repayment of principals and interests of lease liabilities		**(2,652)**	Not applicable
Repayment of principals of debt securities issued		**(84,176)**	(20,332)
Cash payments for interest on debt securities		**(9,688)**	(12,191)
Cash payments for distribution of dividends		**(24,940)**	(23,852)
Dividends paid to non-controlling interests		**(81)**	(72)
Net cash flows generated from/(used in) financing activities		**86,728**	(13,476)
Effect of exchange rate changes on cash and cash equivalents		**1,868**	4,297
Net increase/(decrease) in cash and cash equivalents		**(75,757)**	14,573
Cash and cash equivalents at the beginning of the year		**243,492**	228,919
Cash and cash equivalents at the end of the year	40	**167,735**	243,492
Net cash flows from operating activities include:			
Interest received		**283,899**	281,793
Interest paid		**(233,397)**	(193,279)

The accompanying notes form a part of these consolidated financial statements.

(All amounts expressed in millions of RMB unless otherwise stated)

1 GENERAL

Bank of Communications Co., Ltd. (the "Bank") is a joint-stock national commercial bank, reorganised on 1 April 1987 at the approval of notice Guo Fa (1986) No. 81 issued by the State Council of the PRC and notice Yin Fa (1987) No. 40 issued by the People's Bank of China ("PBOC"). Headquartered in Shanghai, the Bank operates 244 branches in Mainland China and 22 branches (sub-branches), subsidiary banks and representative offices overseas. The Bank's A shares are listed on Shanghai Stock Exchange and H shares on Hong Kong Stock Exchange.

The principal activities of the Bank and its subsidiaries (collectively referred to as the "Group") include corporate and personal banking services, interbank and financial market business, fund management, trustees, financial leasing, insurance, overseas securities debt-to-equity swap, asset management and other financial services.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to the periods presented unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with all the applicable International Financial Reporting Standards ("IFRSs") and disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and the Hong Kong Companies Ordinance (Cap.622). The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments and investment property which are measured at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 2.30.

2.1.1 New and amended standards adopted by the Group

The Group has adopted the following new or amendments to the International Financial Reporting Standards ("IFRSs"):

IFRS 16	Leases
Amendments to IFRS 9	Prepayment Features with Negative Compensation and Modifications of Financial Liabilities
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23	Annual Improvements to IFRSs 2015 – 2017 cycle
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement
IFRIC 23	Uncertainty over Income Tax

IFRS 16 Leases

IFRS 16 was officially issued in January 2016 and is effective for annual periods beginning on or after 1 January 2019. The new standard improves the identification, breakdown and mergence of leases and requires lessees to recognise leases in balance sheet. For lessees, substantially all the leases should be recognised in balance sheet as the classification of operating leases and financial leases has been removed. Under new standard, the entity is required to recognise the right-of-use assets and leasing liabilities. Exemptions exists only for to short-term and low-value leases. Meanwhile, the new standard also improves the accounting treatments of the lessee on subsequent measurement and leasing changes. The new standard causes no substantial changes to the accounting of lessors.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.1 New and amended standards adopted by the Group *(Continued)*

IFRS 16 Leases (Continued)

The Group adopted the standard on 1 January 2019 and did not restate the comparative information of the year before first adoption using simplified transitional approach permitted under the standard. At the date of initial application, the leasing liabilities were measured at the present value of the remaining lease payments, discounted using lessee's incremental borrowing rate, and the right-of-use assets of remaining leases were measured as if the new standard had always been applied since the beginning of the lease period. For short-term and low-value leases, the Group is subject to exemptions.

Disclosures relating to the impact of the adoption of IFRS 16 on the Group are listed in Note 2.1.2. Further details of the specific IFRS 16 accounting policies applied in the current year are listed in Note 2.16 and 2.31.

Amendments to IFRS 9

On 12 October 2017, the IASB issued amendments to IFRS 9 – Prepayment Features with Negative Compensation and Modifications of Financial Liabilities. These amendments permit more assets to be measured at amortised cost than under the previous version of IFRS 9, in particular some prepayable financial assets. These amendments also clarify the accounting for a modification or exchange of a financial liability measured at amortised cost that does not result in the de-recognition of the financial liability.

Amendments to IAS 28

The amendments clarify the accounting for long-term interests in an associate or joint venture, which in substance form part of the net investment in the associate or joint venture, but to which equity accounting is not applied. Entities must account for such interests under IFRS 9 before applying the loss allocation and impairment requirements in IAS 28.

Annual Improvements to IFRS Standards 2015 – 2017 Cycle

The Annual Improvements to IFRS Standards 2015 – 2017 Cycle include a number of amendments to various IFRSs, including the amendments to IFRS 3 – Business Combinations, the amendments to IFRS 11 – Joint Arrangements, the amendments to IAS 12 – Income Taxes, the amendments to IAS 23 – Borrowing Costs.

Amendments to IAS 19

On 7 February 2018, the IASB issued amendments to the guidance in IAS 19 – Employee Benefits, in connection with accounting for plan amendments, curtailments and settlements. The amendments to IAS 19 clarify the accounting for defined benefit plan amendments, curtailments and settlements. They confirm that entities must calculate the current service cost and net interest for the remainder of the reporting period after a plan amendment, curtailment or settlement by using the updated assumptions from the date of the change, and any reduction in a surplus should be recognised immediately in profit or loss either as part of past service cost, or as a gain or loss on settlement. In other words, a reduction in a surplus must be recognised in profit or loss even if that surplus was not previously recognised because of the impact of the asset ceiling. The entities should separately recognise any changes in the asset ceiling through other comprehensive income.

Interpretation 23 Uncertainty over Income Tax Treatments

The IASB issued IFRIC 23 – Uncertainty over Income Tax Treatments to clarify how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments.

Except the above-mentioned impacts of IFRS 16, the adoption of the new IFRSs and amendments to IFRSs above does not have a material impact on the Group's operating results, financial position or other comprehensive income.

(All amounts expressed in millions of RMB unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.2 Changes in accounting policies

IFRS 16

The major impact of adopting IFRS 16 on the financial statements is as follows:

Consolidated balance sheet:

As at 1 January 2019	Before restatement	Restated amount	After restatement
Other assets	69,008	6,423	75,431
Other liabilities	131,714	7,046	138,760
Including: lease liabilities	*Not applicable*	*7,044*	*7,044*
Retained earnings	129,161	(616)	128,545
Non-controlling interests	6,903	(7)	6,896

As at 1 January 2019, reconciliation from operating lease commitments under the former standards to lease liabilities under IFRS 16 is as below:

	The Group
Operating lease commitments disclosed as at 31 December 2018	12,345
Discounted using the lessee's incremental borrowing rate of the date of initial application	7,674
Less: short-term and low-value leases not recognised as a liability	(630)
Lease liability recognised as at 1 January 2019	7,044

2.1.3 Standards and amendments issued but not yet effective

		Effective for annual period commencing on or after
Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture	The amendments were originally intended to be effective for annual periods beginning on or after 1 January 2016. The effective date has now been deferred/removed.
Amendments to IAS 1 and IAS 8	Definition of Material	1 January 2020
Amendments to IFRS 3	Definition of a Business	1 January 2020
Revised Conceptual Framework for Financial Reporting	Conceptual Framework for Financial Reporting	1 January 2020
IFRS 17	Insurance Contracts	1 January 2021 (likely to be extended to 1 January 2023)
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest rate benchmark reform	1 January 2020

Amendments to IFRS 10 and IAS 28

The amendments address an inconsistency between IFRS 10 and IAS 28 in the sale and contribution of assets between an investor and its associate or joint venture.

A full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if those assets are in a subsidiary.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.3 Standards and amendments issued but not yet effective *(Continued)*

Amendments to IAS 1 and IAS 8

The IASB has made amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors which use a consistent definition of materiality throughout International Financial Reporting Standards and the Conceptual Framework for Financial Reporting, clarify when information is material and incorporate some of the guidance in IAS 1 about immaterial information.

In particular, the amendments clarify:

- that the reference to obscuring information addresses situations in which the effect is similar to omitting or misstating that information, and that an entity assesses materiality in the context of the financial statements as a whole, and
- the meaning of 'primary users of general purpose financial statements' to whom those financial statements are directed, by defining them as 'existing and potential investors, lenders and other creditors' that must rely on general purpose financial statements for much of the financial information they need.

Amendments to IFRS 3

The amended definition of a business requires an acquisition to include an input and a substantive process that together significantly contribute to the ability to create outputs. The definition of the term 'outputs' is amended to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits.

The amendments will likely result in more acquisitions being accounted for as asset acquisitions.

Revised Conceptual Framework for Financial Reporting

The IASB has issued a revised Conceptual Framework which will be used in standard-setting decisions with immediate effect. Key changes include:

- increasing the prominence of stewardship in the objective of financial reporting
- reinstating prudence as a component of neutrality
- defining a reporting entity, which may be a legal entity, or a portion of an entity
- revising the definitions of an asset and a liability
- removing the probability threshold for recognition and adding guidance on derecognition
- adding guidance on different measurement basis, and
- stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements.

No changes will be made to any of the current accounting standards. However, entities that rely on the Framework in determining their accounting policies for transactions, events or conditions that are not otherwise dealt with under the accounting standards will need to apply the revised Framework from 1 January 2020. These entities will need to consider whether their accounting policies are still appropriate under the revised Framework.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.3 Standards and amendments issued but not yet effective (Continued)

IFRS 17

IFRS 17 Insurance Contracts was issued in May 2017 as replacement for IFRS 4. It requires a current measurement model where estimates are re-measured in each reporting period. Contracts are measured using the building blocks of: discounted probability weighted cash flows, an explicit risk adjustment, and a contractual service margin ("CSM") representing the unearned profit of the contract which is recognised as revenue over the coverage period.

The standard allows a choice between recognising changes in discount rates either in the statement of profit or loss or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under IFRS 9.

An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers.

There is a modification of the general measurement model called the "variable fee approach" for certain contracts written by life insurers where policyholders share in the returns from underlying items. When applying the variable fee approach, the entity's share of the fair value changes of the underlying items is included in the CSM. The results of insurers using this model are therefore likely to be less volatile than under the general model.

The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features.

The standard is currently mandatorily effective for annual periods beginning on or after 1 January 2021. However, the IASB decided to defer the effective date of IFRS 17 to annual reporting periods beginning on or after 1 January 2023 on 17 March 2020, and expects to issue the amendments to IFRS 17 in the second quarter of 2020.

The Group has not completed its assessment of the impact on the Group's operating results and financial position of adopting IFRS 17.

Amendments to IFRS 9, IAS 39 and IFRS 7

The IASB has published Amendments to IFRS 9, IAS 39 and IFRS 7- Interest Rate Benchmark Reform as a first reaction to the potential effects the Interest Rate Benchmark Reform ("IBOR") could have on financial reporting. The amendments provide targeted relief for financial instruments qualifying for hedge accounting in the lead up to IBOR reform. Key changes include:

- modifying specific hedge accounting requirements so that entities would apply those hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform;

- mandatory for all hedging relationships that are directly affected by the interest rate benchmark reform;

- are not intended to provide relief from any other consequences arising from interest rate benchmark reform (if a hedging relationship no longer meets the requirements for hedge accounting for reasons other than those specified by the amendments, discontinuation of hedge accounting is required); and

- requiring specific disclosures about the extent to which the entities' hedging relationships are affected by the amendments.

Except for the above-mentioned impact of IFRS 17, the adoption of the above new standards and amendments issued but not yet effective is not expected to have a material effect on the Group's operating results, financial position or other comprehensive income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Consolidation

2.2.1 Subsidiary undertakings

The consolidated financial statements incorporate the financial statements of the Bank and entities (including structured entities) controlled by the Bank and its subsidiaries. Control is achieved when the Bank:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are not consolidated from the date that control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred in a business combinations is measured at fair value, which is calculated as the sum of the acquisition date fair value 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 recognised in the consolidated income statement 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 interests in the acquiree at the non-controlling interests' proportionate share of the acquiree's net assets.

The excess of the cost of an acquisition less the fair value of the Group's share of the net identifiable assets of acquired subsidiaries and associates at the date of acquisition is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss.

All intra-Group transactions, balances, income and expenses 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Consolidation *(Continued)*

2.2.2 Transactions with non-controlling interests

For acquisition of additional interests in subsidiaries from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiaries is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group loses control of a subsidiary due to the disposal of a portion of an equity investment, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. 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 are reclassified to profit or loss and retained earning.

2.2.3 Structured entities

Structured entities are entities that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entities, for example when any voting rights relate to administrative tasks only, and key activities are directed by contractual agreement. Structured entities often have restricted activities and a narrow and well defined objective. Examples of structured entities include investment funds, trusts, securitisation vehicles and asset backed financings. Involvement with consolidated and unconsolidated structured entities is disclosed in Note 41 and 42.

2.2.4 Investment in an associate

An associate is an entity over which the Group has significant influence but not control and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results of an associate are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, is recognised immediately in profit or loss.

At the end of each reporting period, the Group assesses whether there is an indication of possible impairment with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested as a single asset for impairment in accordance with IAS 36 "Impairment of assets" by comparing its recoverable amount (the higher of value in use and fair value less costs of sale) with its carrying amount, any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised only to the extent of interests in the associate that are not related to the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.3 Derivative financial instruments

Derivative financial instruments include, but not limited to, interest rate derivative and foreign exchange derivative. Derivative financial instruments are initially measured at fair value at the date a derivative contract is entered into and are subsequently measured at fair value. Changes in fair value of these derivative financial instruments are recognised in profit or loss. Fair values are obtained from quoted market prices in active market or are determined using valuation techniques, including discounted cash flow model and options pricing model as appropriate. All derivatives are recognised as assets when the fair value is positive and as liabilities when the fair value is negative.

Derivatives embedded in non-derivative host contracts are treated as a separate derivative when their characteristics and risks are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss. These embedded derivatives are separately accounted for at fair value, with changes in fair value recognised in profit or loss.

2.4 Financial instruments

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset.

At initial recognition, the Group measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, an expected credit loss allowance is recognised for financial assets measured at amortised cost and debt investments measured at fair value through other comprehensive income, which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the entity recognises the difference as follows:

(a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.

(b) In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

The method of determining fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction at the measurement date. For financial instruments with active markets, the Group uses quotations from active markets to determine their fair value, and for financial instruments where there is no active market, the Group uses valuation techniques to determine its fair value. Valuation techniques include references to prices used in recent market transactions by parties familiar with the situation and voluntary transactions, the current fair value of other financial instruments with reference to the same substantially, the discounted cash flow method and the option pricing model.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 Financial instruments *(Continued)*

Measurement methods

Amortised cost and effective interest rate

The amortised cost is the amount at which the financial asset or financial liability 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, for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees. For purchased or originated credit-impaired ('POCI') financial assets – assets that are credit-impaired at initial recognition – the Group calculates the credit-adjusted effective interest rate, which is calculated based on the amortised cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows.

When the Group revises the estimates of future cash flows, the carrying amount of the respective financial assets or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in profit or loss.

2.4.1 Financial assets

Classification and subsequent measurement

The Group has classified its financial assets in the following measurement categories:

- Fair value through profit or loss (FVPL);
- Fair value through other comprehensive income (FVOCI); or
- Amortised cost.

The classification requirements for debt and equity instruments are described below:

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds and trade receivables purchased from clients in factoring arrangements without recourse.

Classification and subsequent measurement of debt instruments depend on:

(i) The Group's business model for managing the asset; and

(ii) The cash flow characteristics of the asset.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 Financial instruments *(Continued)*

2.4.1 Financial assets *(Continued)*

Classification and subsequent measurement (Continued)

Debt instruments *(Continued)*

Based on these factors, the Group classifies its debt instruments into one of the following three measurement categories:

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured from these financial assets. According to the business category, these financial assets are presented as 'Cash and balances with central banks', 'Due from banks and other financial institutions', 'Loans and advances to customers' and 'Financial investments at amortised cost' respectively. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

Fair value through other comprehensive income (FVOCI): Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. According to the business category, respectively, these financial assets are presented as 'Loans to customers' and 'Debt investments at fair value through other comprehensive income'. 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 and recognised in 'Net gains arising from financial investments'. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

Fair value through profit or loss: Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on the debt investment, which is measured at fair value through profit or loss and is not part of a hedging relationship, is recognised in profit or loss and presented as 'Net gains arising from trading activities'.

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

SPPI: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 Financial instruments *(Continued)*

2.4.1 ***Financial assets*** *(Continued)*

Classification and subsequent measurement (Continued)

Debt instruments *(Continued)*

The Group reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the year.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

The Group subsequently measures all equity investments at fair value through profit or loss, except where the Group's management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income, listed as 'Financial investments at FVPL'. The Group's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to sell. When this election is used, fair value gains or losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Dividends, when representing a return on such investments, continue to be recognised in profit or loss as 'Net gains arising from financial investments' when the Group's right to receive payments is established.

Gains or losses on equity investments at FVPL are recognised as 'Net gains arising from trading activities'.

Impairment

On a forward-looking basis, the Group assesses the expected credit losses ('ECL') of debt instrument assets at amortised cost and FVOCI, exposures arising from loan commitments and financial guarantee contracts. The Group recognises a loss allowance accordingly at each reporting date. The measurement of ECL 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.

Regarding these judgment and estimates, please refer to note 21.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 Financial instruments *(Continued)*

2.4.1 *Financial assets* *(Continued)*

Modification of loans

The Group sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Group assesses whether or not the new terms are substantially different to the original terms. The Group does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.

- Whether any substantial new terms are introduced, such as a profit share/equity-based return that substantially affects the risk profile of the loan.

- Significant extension of the loan term when the borrower is not in financial difficulty.

- Significant change in the interest rate.

- Change in the currency the loan is denominated in.

- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Group derecognises the original financial asset and recognises a 'new' asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Group also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 Financial instruments *(Continued)*

2.4.1 ***Financial assets*** *(Continued)*

Derecognition other than on a modification

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Group transfers substantially all the risks and rewards of ownership, or (ii) the Group neither transfers nor retains substantially all the risks and rewards of ownership and the Group has not retained control.

The Group enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as 'pass through' transfers that result in derecognition if the Group:

(i) Has no obligation to make payments unless it collects equivalent amounts from the assets;

(ii) Is prohibited from selling or pledging the assets; and

(iii) Has an obligation to remit any cash it collects from the assets without material delay.

Collateral (shares and bonds) furnished by the Group under standard repurchase agreements and securities lending and borrowing transactions are not derecognised because the Group retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met. This also applies to certain securitisation transactions in which the Group retains a subordinated residual interest.

When the contractual rights to receive the cash flows from the assets have been transferred, and the Group neither transfers nor retains substantially all the risks and rewards of ownership, and the Group has retained control of the transferred assets, the Group applies continuing involvement approach. Under this approach, the Group continues to recognise the transferred asset to the extent of its continuing involvement and recognise the associated liability, to reflect the rights and obligations retained by the Group. The net carrying amount of the transferred asset and associated liability is: (a) the amortised cost of the rights and obligations retained by the Group, if the transferred asset is measured at amortised cost; or (b) equal to the fair value of the rights and obligations retained by the Group when measured on a stand-alone basis, if the transferred asset is measured at fair value.

Asset securitisation

As part of its operational activities, the Group securities financial assets, generally through the sale of these assets to structured entities which then issue securities to investors. The Group holds part or all of the subordinated tranche notes, which are not transferrable before both the principals and interests of the senior tranche notes are repaid. The Group serves as the asset management supplier, providing services including loan collection for the investment pool, keeping accounting records related to the investment pool and issuing reports as the service agency. The assets under securitisation are used to repay the principals and interests of the senior tranche notes first after deducting related taxation and expenses, and the remaining assets under securitisation are repaid to the Group and subordinated tranche notes investors. The Group derecognises the transferred assets in full or in part based on the extent of the risks and rewards retained over.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 Financial instruments *(Continued)*

2.4.1 Financial assets *(Continued)*

Asset securitisation (Continued)

The Group evaluates the extent to which it transfers the risks and rewards of ownership of the financial assets to the other party and determines whether it retains control while applying the accounting policy in respect of asset securitisation.

(1) The financial asset is derecognised when the Group transfers substantially all the risks and rewards of ownership of the financial asset.

(2) The financial asset continues to be recognised when the Group retains substantially all the risks and rewards of ownership of the financial asset.

(3) When the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset and does not retain control it derecognises the financial asset and recognises separately as assets or liabilities any rights and obligations created or retained in the transfer.

(4) When the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset and retains control, it continues to recognise the financial asset to the extent of its continuing involvement in the financial asset. The Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

2.4.2 Financial liabilities

Classification and subsequent measurement

In both the current and prior period, financial liabilities are classified as liabilities measured at amortised cost, except for:

- Financial liabilities at fair value through profit or loss: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in the trading booking) and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains or losses attributable to changes in the credit risk of the liability are also presented in profit or loss;

- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition or when the continuing involvement approach applies. When the transfer of financial asset did not qualify for derecognition, a financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Group recognises any expense incurred on the financial liability; when continuing involvement approach applies, see note 2.30(e); and

- Financial guarantee contracts and loan commitments (refer to Note 2.27)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 Financial instruments *(Continued)*

2.4.2 Financial liabilities (Continued)

Derecognition

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

The exchange between the Group and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is more than 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

A financial instrument is an equity instrument if, and only if, both conditions (i) and (ii) below are met:

(i) The financial instrument includes no contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; and

(ii) If the financial instrument will or may be settled in the Group's own equity instruments, it is a non-derivative instrument that includes no contractual obligations for the Group to deliver a variable number of its own equity instruments; or a derivative that will be settled only by the Group exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

Equity instruments issued by the Group are recorded at the fair value of proceeds received, net of direct issuance expenses.

2.4.3 Derivatives and hedging activities

The Group has elected to apply the hedge accounting requirements of IFRS 9.

Derivatives are initially recognised at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 Financial instruments *(Continued)*

2.4.3 Derivatives and hedging activities *(Continued)*

Certain derivatives are embedded in hybrid contracts, such as the conversion option in a convertible bond. If the hybrid contract contains a host that is a financial asset, then the Group assesses the entire contract as described in the financial assets section above for classification and measurement purposes. Otherwise, the embedded derivatives are treated as separate derivatives when:

(i) Their economic characteristics and risks are not closely related to those of the host contract;

(ii) A separate instrument with the same terms would meet the definition of a derivative; and

(iii) The hybrid contract is not measured at fair value through profit or loss.

These embedded derivatives are separately accounted for at fair value, with changes in fair value recognised in the statement of profit or loss unless the Group chooses to designate the hybrid contracts at fair value through profit or loss.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated and qualifies as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

(a) Hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges); or

(b) Hedges of highly probable future cash flows attributable to a recognised asset or liability (cash flow hedges).

The Group documents, at the inception of the hedge, the relationship between hedged items and hedging instruments, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

(a) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the statement of profit or loss, together with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss no later than when the hedged item ceases to be adjusted for hedging gains and losses over the period to maturity and recorded as net interest income.

(b) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the statement of profit or loss.

Amounts accumulated in equity are recycled to the statement of profit or loss in the periods when the hedged item affects profit or loss. They are recorded in the income or expense lines in which the revenue or expense associated with the related hedged item is reported.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised in the periods when the hedged item affects profit or loss. When a forecast transaction is no longer expected to occur (for example, the recognised hedged asset is disposed of), the cumulative gain or loss previously recognised in other comprehensive income is immediately reclassified to the statement of profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 Financial instruments *(Continued)*

2.4.4 Offsetting financial assets and financial liabilities

When the Group has a currently enforceable legal right to offset recognised financial assets and financial liabilities, and intends either to settle on a net basis or to realise the financial asset and settle the financial liability at the same time, the financial assets and liabilities are offset with the net amount presented in the consolidated statement of financial position. Otherwise, financial assets and financial liabilities are presented separately. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Group or the counterparty.

2.5 Interest income and expense

Interest income and expense of interest-bearing financial instruments are recognised in profit or loss using the effective interest method (See Note 2.4).

2.6 Fee and commission income

For the performance obligations satisfied at a point in time, the Group recognises revenue when control is passed to the customer at a certain point in time. For the performance obligations satisfied over time, the Group recognises revenue according to the progress toward satisfaction of the obligation over the time.

2.7 Dividend income

Dividends are recognised when the right to receive the dividends is established.

2.8 Assets transferred under repurchase agreements

(a) Financial assets sold under repurchase agreements

Financial assets sold subject to agreements with a commitment to repurchase at a specific future date at a fixed or determinable price are not derecognised in the statement of financial position. The proceeds from selling such assets are presented under “due to banks and other financial institutions” in the statement of financial position. The difference between the selling price and repurchasing price is recognised as interest expense during the term of the agreement using the effective interest method.

(b) Financial assets purchased under resale agreements

Financial assets that have been purchased under agreements with a commitment to resell at a specific future date are not recognised in the statement of financial position. The cost of purchasing such assets is presented under “due from banks and other financial institutions” in the statement of financial position. The difference between the purchasing price and reselling price is recognised as interest income during the term of the agreement using the effective interest method.

2.9 Precious metals

Precious metals that are not related to the Group’s trading activities are initially measured at acquisition cost and subsequently measured at the lower of cost and net realisable value. Precious metals that are related to the Group’s trading activities are initially and subsequently recognised at fair value, with changes in fair value arising from re-measurement recognised directly in profit or loss in the period in which they arise.

(All amounts expressed in millions of RMB unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.10 Property and equipment

The Group's property and equipment mainly comprise land and buildings, equipment, construction in progress, transportation equipment and property improvement.

The assets purchased or constructed are initially measured at acquisition cost.

Subsequent expenditures incurred for the property and equipment are included in the cost of the property and equipment if it is probable that economic benefits associated with the asset will flow to the Group and the subsequent expenditures can be measured reliably. Meanwhile the carrying amount of the replaced part is derecognised. Other subsequent expenditures are recognised in profit or loss in the period in which they are incurred.

Depreciation is calculated on a straight-line basis 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.

Land and buildings comprise primarily office premises. The estimated useful lives, depreciation rate and estimated residual value rate of land and buildings, equipment, transportation equipment and property improvement are as follows:

Type of assets	**Estimated useful lives**	**Estimated residual value rate**	**Depreciation rate**
Land and buildings	25 years – 50 years	3%	1.94% – 3.88%
Equipment	3 years – 11 years	3%	8.82% – 32.33%
Transportation equipment (excluding equipment under operating leases)	4 years – 8 years	3%	12.13% – 24.25%
Property improvement	Over the economic useful lives		

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Construction in progress is measured at its actual costs. The actual costs include various construction expenditures during the construction period and other relevant costs. Construction in progress is not depreciated. Construction in progress is transferred to a property and equipment when it is ready for intended use.

Equipment under operating leases where the Group is the lessor is aircraft or vessel. The estimated useful lives and depreciation rate of the aircraft or vessel are determined considering their conditions and the estimated residual values are determined by external appraiser using historical data on an item-by-item basis. The estimated useful lives range from 5 to 25 years.

2.11 Foreclosed assets

Foreclosed financial assets are initially recognised at fair value, and foreclosed non-financial assets are initially recognised at cost. At the end of each reporting period, foreclosed non-financial assets are measured at the lower of the carrying amount and the net realisable value. When the net realisable value is lower than the carrying amount, an impairment allowance is recognised.

When a foreclosed asset is disposed, the difference between the disposal proceeds and the carrying amount is recognised in profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.11 Foreclosed assets *(Continued)*

The Group disposes of foreclosed assets through various means. In principle, foreclosed assets should not be transferred for own use, but, in the event that they are needed for the Group's own business or management purposes, they are transferred at their net carrying amounts and managed as newly acquired property and equipment.

When a foreclosed asset needs to be transferred for own use, it is transferred at its carrying amount including the impairment allowance at the transition day.

Foreclosed assets of the Group mainly include buildings and land use rights.

2.12 Land use rights

Land use rights are classified as other assets and amortised using the straight-line method over the lease term.

2.13 Intangible assets

An intangible asset is measured initially at cost. When an intangible asset with a finite useful life is available for use, its original cost is amortised over its estimated useful life using the straight-line method. An intangible asset with an indefinite useful life is not amortised.

For an intangible asset with a finite useful life, the Group reviews the useful life and amortisation method at the end of each reporting period, and makes adjustments when necessary.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

2.14 Investment property

Investment property is a property held to earn rentals or for capital appreciation or both and initially measured at cost.

As there is an active property market in the location in which the Group's investment property is situated, and the Group can obtain the market price and other relevant information regarding the same or similar type of property from the property market so as to reasonably estimate the fair value of the investment property; therefore, the Group uses the fair value model for subsequent measurement of the investment property, with changes in the fair value included in profit or loss for the period in which they arise.

When an investment property is sold, transferred, retired or damaged, the Group recognises the amount of any proceeds on disposal net of the carrying amount and related taxes in profit or loss for the period.

2.15 Impairment of non-financial assets

At the end of the reporting period or whenever there is an indication that the non-financial assets are impaired, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately.

Goodwill, intangible assets with indefinite useful life and intangible assets not yet available for use are tested for impairment annually, irrespective of whether there is any indication that the assets may be impaired.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.15 Impairment of non-financial assets *(Continued)*

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but the increased carrying amount should not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised in profit or loss immediately.

2.16 Leases

Lease refers to a contract in which the lessor transfers the right of use of the assets to the lessee for a certain period of time to obtain the consideration.

(a) The Group as Lessee

The Group recognises the right-of-use asset on the start date of the lease term and recognises the lease liability at the present value of the remaining lease payments. The lease payments include fixed payments and payments to be made when it is reasonably determined to exercise purchase option or terminate lease option. Variable rent determined based on a certain proportion of sales is not included in the lease payments and is recognised in profit or loss when incurred.

The Group's right-of-use assets include leased properties, venues, parking lots, advertising spaces, vehicles and equipment etc. The right-of-use asset is initially measured at cost, which includes the initial measurement of the lease liability, the lease payments already paid on or before the lease start date, the initial direct costs etc., and deducts any lease incentives received. The leased asset is depreciated on a straight-line basis over its remaining useful life if the Group could reasonably determine to obtain the ownership at the expiration of the lease term; if it is unsure whether the ownership of the leased asset can be obtained at the expiration of the lease term, the right-of-use asset is depreciated over the shorter of its remaining useful life and the lease term on a straight-line basis. When the recoverable value is lower than the book value of the right-of-use asset, the Group reduces the book value to the recoverable value.

For short-term leases with a lease term shorter than 12 months and leases of asset with low value when it is new, the Group recognises relevant rental expenses on a straight-line basis in profit or loss or in the related asset costs in each lease period rather than recognising the right-of-use assets or lease liabilities.

(b) The Group as Lessor

Operating Lease

When the Group leases out its own buildings and properties, equipment and transportation vehicles, the rental income arising from operating leases is recognised on a straight-line basis over the lease term. Variable rent determined based on a certain proportion of sales is recognised in rental income when incurred.

Finance Lease

As lessor of the finance lease, the Group recognises the finance lease receivables for the finance lease on the commencement date of the lease period and derecognises the related assets. Finance lease receivables are recognised at the net lease investment to "Loans and advances to customers" for the initial measurement. The net lease investment is the sum of the unsecured residual value and the present value of the lease payments unreceived at the commencement date of the lease period discounted at the interest rate implicit in lease.

Finance lease receivables are derecognised when the contractual rights of receiving cash from the finance lease receivables have expired or have been transferred and all substantial risks and rewards regarding the lease have been transferred.

During the lease period, the lessor applies the fixed periodic interest rate to calculate the interest income for each period. Contingent rentals are recognised in profit or loss when incurred.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.17 Cash and cash equivalents

Cash and cash equivalents are short-term and highly liquid assets, which are readily convertible into known amounts of cash and subject to an insignificant risk of changes in value. Cash and cash equivalents include cash and assets with original maturity of three months or less under balances with central banks, due from banks and other financial institutions.

2.18 Provisions

Provisions are recognised when the Group has a present obligation related to a contingency, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account factors pertaining to a contingency such as the risks, uncertainties and time value of money. Where the effect of the time value of money is material, the amount of the provision is determined by discounting the related future cash outflows.

Where all or some of the expenditure required to settle a provision is expected to be reimbursed by a third party, the reimbursement is recognised as a separate asset only when it is virtually certain that reimbursement will be received, and the amount of reimbursement recognised does not exceed the carrying amount of the provision.

2.19 Income taxes

Income tax expense represents the sum of the tax currently payable and deferred tax.

(a) Current income tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

(b) Deferred income tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.19 Income taxes *(Continued)*

(b) Deferred income tax (Continued)

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income, in which case the current and deferred tax are also recognised in other comprehensive income.

For the purposes of measuring deferred tax liabilities or deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

2.20 Share capital

(a) Share capital

Share capital comprises ordinary shares issued.

(b) Share issue costs

External costs directly attributable to the issuance of new shares are shown in equity as a deduction from the proceeds.

2.21 Dividend distribution

(a) Dividends on ordinary shares

Dividends on ordinary shares are recognised in the period in which they are declared and approved by the Bank's shareholders.

(b) Dividends on preference shares

Preference share dividend distribution is recognised as a liability in the Group's and the Bank's financial statements in the period in which the dividends are approved by the Board of Directors of the Bank.

(c) Distribution on perpetual bonds

Perpetual bond interest distribution is recognised as a liability in the Group's and the Bank's financial statements in the period in which the interest distribution approved by the Board of Directors of the Bank.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.22 Acceptances

Acceptances comprise the Group's commitments on payment for bills that are issued to customers. Acceptances are accounted for as financial guarantees and credit related commitments and are disclosed as contingent liabilities and commitments.

2.23 Employee benefits

(a) Staff benefit and retirement benefit obligations

In the reporting period in which an employee has rendered services, the Group recognises the employee benefits payable for those services as a liability. The Group participates in the employee social security systems, such as basic pensions, medical insurance, housing funds and other social securities established by the government in accordance with relevant requirements. The related expenditures are charged to profit or loss in the period when they are incurred.

The Group pays supplementary retirement benefits to employees in Mainland China who retired before 31 December 2008. The Group accrues a liability based on actuarial techniques and recognises all actuarial gains and losses in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income will not be reclassified to profit or loss. Past service cost is recognised in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset.

Employees in Mainland China who retired after 1 January 2009 participate in the defined contribution plan established (the "Annuity Plan") by the Group. The Group contributes a certain portion of the employees' gross salaries to the Annuity Plan. Related expenses are recognised in profit or loss when incurred.

The Group pays the welfare benefits for employees, who have not yet reached the statutory retirement age limit and are approved by the Group to voluntarily retire from their employment, from the early retirement date to the statutory retirement age limit. These welfare benefits are recognised in profit or loss based on the discounted cash flow calculation over the implementation period. The Group reviews present value of the welfare benefits on each reporting date, with any changes recognised in profit or loss.

(b) Share-based compensation

A share-based payment is a transaction which the Group grants equity instruments, or incurs liabilities for amounts that are determined based on the price of equity instruments, in return for services rendered by employees. The Group's share-based payments are cash-settled share-based payments.

Cash-settled share-based payments are measured at the fair value of the liabilities incurred by the Group, which are determined based on the price of the share or other equity instruments. Until the liability is settled, the Group remeasures the fair value of the liability at each reporting date and at the date of settlement, with any changes in fair value recognised in profit or loss for the period.

The value of share appreciation rights ("SARs") granted by the Group is determined by applying the Binomial Option Pricing Model.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.24 Foreign currency translation

Renminbi ("RMB") is the currency of the primary economic environment in which the Bank and the Group's domestic subsidiaries operate. Therefore, the Bank and the Group's domestic subsidiaries choose RMB as their functional currency. The Bank and the Group's foreign subsidiaries choose their respective functional currencies on the basis of the primary economic environment in which they operate. The Group adopts RMB to prepare its consolidated financial statements.

In preparing the financial statements of each individual Group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions.

At the reporting date, foreign currency monetary items are translated into RMB using the spot exchange rates at the reporting date. Exchange differences arising from the differences between the spot exchange rates prevailing at the reporting date and those on initial recognition or at the previous reporting date are recognised in profit or loss for the period, except that (1) exchange differences related to hedging instruments for the purpose of hedging against foreign exchange risks are accounted for using hedge accounting; (2) exchange differences arising from non-monetary items at fair value through other comprehensive income (such as shares) denominated in foreign currencies and changes in the carrying amounts (other than the amortised cost) of monetary items at fair value through other comprehensive income are recognised as other comprehensive income; and (3) exchange differences arising on a foreign currency monetary item that forms part of the Bank's net investment in a foreign operation.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income.

On disposal of the Group's entire interest in a foreign operation, or upon a loss of control over a foreign operation due to disposal of certain interest in it or other reasons, the Group transfers the accumulated exchange differences arising on translation of financial statements of this foreign operation and foreign currency monetary items that form part of the net investment in such foreign operation attributable to the owners' equity of the Group and presented under shareholder's equity in the statement of financial position, to profit or loss in the period in which the disposal occurs.

In case of a disposal or other reason that does not result in the Group losing control over a foreign operation, the proportionate share of accumulated exchange differences arising on translation of financial statements are re-attributed to non-controlling interests and are not recognised in profit and loss. For partial disposals of equity interests in foreign operations which are associates, the proportionate share of the accumulated exchange differences arising on translation of financial statements of foreign operations is reclassified to profit or loss.

2.25 Contingent liabilities and contingencies

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.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable and the amount can be reliably measured, it will then be recognised as a provision.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.26 Insurance contracts

(a) Insurance contracts classification

Insurance contracts are those contracts under which the Group has accepted significant insurance risk, relative to an insured event or occurrence. The Group issues primarily life insurance contracts, which insure events associated with mortality over a long duration. The Group also issues non-life insurance contracts, which cover short-term casualty and health insurance risk. When necessary, the Group enters into reinsurance contracts to transfer insurance risks to a reinsurer. A significant insurance risk test is performed at inception of the insurance contracts.

Some insurance contracts contain both an insurance component and a deposit component. The Group unbundles those components, if the insurance component and the deposit component are separately measurable. The unbundled insurance component is accounted for according to IFRS 4 — Insurance Contracts and the unbundled deposit component is accounted for as a financial liability under investment contract liabilities.

(b) Insurance income recognition

Premiums from long-term life insurance contracts are recognised as revenue when due from policyholders. Premiums related to short-term non-life insurance contracts are recognised when received at the inception of the policy, as unearned insurance premiums in the consolidated statement of financial position, and are amortised on a straight-line basis into the consolidated income statement over the term of the policy. When the Group has transferred insurance risk through reinsurance contracts, the Group calculates the amount of premium ceded and the reinsurers' share of expenses and recognises them through the consolidated income statement in accordance with the terms of the reinsurance contracts.

(c) Insurance contract reserves

Insurance contract liabilities are measured based on a reasonable estimate of the amount of payments that the Group will be required to make to fulfil its obligations under the insurance contracts, which represents the difference between expected future cash outflows and inflows related to such contracts. A reasonable estimate of expected future net cash flows is determined based on information currently available as at the end of the reporting period. The Group has considered the impact of time value in the liability calculation for long-term life insurance.

The Group performs liability adequacy tests based on information currently available, as at the reporting date. Additional insurance contract liabilities should be recorded if any deficiency exists.

2.27 Financial guarantee contracts and credit related 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 others on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of:

- The amount of the loss allowance (calculated as described in Note 3.1.2); and
- The premium received on initial recognition less income recognised in accordance with the principles of IFRS 15.

Loan commitments provided by the Group are measured as the amount of the loss allowance (calculated as described in Note 3.1.2). The Group has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument. For loan commitments and financial guarantee contracts, the loss allowance is recognised as an provision.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.28 Fiduciary activities

In activities where the Group acts in a fiduciary capacity such as trustee, custodian or agent, the assets and income arising from the transaction together with the related undertakings to return the assets to customers are excluded from the Group's consolidated financial statements.

The Group conducts entrusted lending for the third-party lenders. The Group grants loans to borrowers, as trustee, according to the instruction of the third-party lenders who fund these loans. The Group is responsible for the arrangement and collection of the entrusted loans and receives a commission for the services rendered. As the Group does not assume the risks and rewards of the entrusted loans and does not provide funding for the corresponding entrusted funds, the entrusted loans are not recognised as assets and liabilities of the Group.

2.29 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker is the person or Group that allocates resources to and assesses the performance of the operating segments of an entity. The Group has determined the senior management team represented by the governor as its chief operating decision maker.

An operating segment is a component of the Group with all of the following conditions are satisfied: (1) that component can earn revenues and incur expenses from ordinary activities; (2) the component's operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and (3) discrete financial information for the component is available to the Group. If two or more operating segments have similar economic characteristics, and certain conditions are satisfied, they may be aggregated into a single operating segment. Intra-segment income and expenses are eliminated. Income and expenses directly associated with each segment are considered in determining segment performance.

The Group has the following segments: Northern China, North Eastern China, Eastern China, Central and Southern China, Western China, Head Office, and Overseas.

2.30 Critical accounting estimates and judgments in applying accounting policies

The preparation of financial statements in conformity with IFRSs and the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and of the Hong Kong Companies Ordinance require the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies.

(a) Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior (e.g. the likelihood of customers defaulting and the resulting losses). Note 3.1 Specifies the parameters, assumptions and estimation techniques used in the measurement of expected credit loss and also discloses the sensitivity of expected credit losses to changes in these factors.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.30 Critical accounting estimates and judgments in applying accounting policies *(Continued)*

(a) Measurement of the expected credit loss allowance *(Continued)*

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Segmentation of business operations having similar credit risk characteristics, selection of appropriate models and determination of relevant key measurement parameters;
- Criteria for determining whether or not there was a significant increase in credit risk, or a default or impairment loss was incurred;
- Economic indicators for forward-looking measurement, and the application of economic scenarios and weightings;
- Management overlay adjustments due to significant uncertain factors not covered in the models; and
- The estimated future cash flows for corporate loans and advances in stage 3.

Detailed information about the judgements and estimates made by the Group in the above areas is set out in note 3.1.

(b) Fair value of financial instruments

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques (e.g. discounted cash flow model). To the extent practical, models use observable data such as interest rate yield curves, foreign currency rates and implied option volatilities, however areas such as credit risk (both own and counterparty's), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial 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.

Detailed information about the judgements and estimates made by the Group in the above areas is set out in note 3.4.

(c) Income taxes

The Group is subject to income tax in various jurisdictions; principally, in Mainland China and Hong Kong. Significant estimates are required in determining the provision for income tax. There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated issues from tax audit based on estimates of whether additional taxes will be due. In particular, the deductibility of certain items in PRC is subject to tax authority's approval. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred income tax and current tax liabilities and deferred income tax assets and liabilities in the period during which such a determination is made.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.30 Critical accounting estimates and judgments in applying accounting policies *(Continued)*

(d) Consolidation of structured entities

As the Group acts as the asset manager in a structured entity, the Group will evaluate whether, in the case of the structured entity, the Group exercises decision-making power as the principal or agent. The Group exercises decision-making power primarily on behalf of other parties (other investors in the structured entity) if it is merely agent and therefore does not have control over the structured entity. However, if the Group is recognised to be primarily representing its own exercise of decision-making power, it is the primary principal and thus does have control over the structured entity. In the evaluation, the Group comprehensively takes into account a wide range of factors, such as the scope of the decision-making power of the asset manager, the rights held by other parties, the remuneration level received by the Group for management service, and the risk exposure to variable returns arising from any other arrangement (such as direct investments).

(e) Derecognition of financial assets

In judging whether the transaction in which a loan transfer through packaging and asset securitization is consistent with the termination confirmation of a financial asset, the Group needs to assess whether the Group meets the criteria for the transfer of financial assets and whether almost all risks and rewards in the ownership of the loan are transferred. If there is neither a transfer nor a retention of almost all the risks and rewards on the ownership of the transferred loan, the Group will further assess whether control over the transferred loan has been retained. In assessing and judging, the Group has taken into account a wide range of factors, such as whether trading arrangements are accompanied by repurchase clauses. The Group sets situational assumptions and uses the future cash flow discount model for risk and compensation transfer testing. The Group de-recognised the loan only if the loan has been transferred and almost all risks and benefits in ownership have been transferred to another subject. If the Group retains almost all the risks and rewards associated with the ownership of the transferred loan, it shall continue to confirm the loan and at the same time recognise the proceeds received as a financial liability. If the Group has neither transferred nor retained almost all of the risks and rewards in the ownership of the loan and has not waived its control over the loan, the financial assets concerned are recognised to the extent that the loan continues to be involved and the relevant liability is recognised accordingly.

2.31 Accounting policies during the comparative period

2.31.1 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

(a) The Group as lessor

At the commencement of the lease term, the aggregate of the minimum lease receivable at the inception of the lease and the initial direct costs is recognised as a finance lease receivable, and the unguaranteed residual value is recorded at the same time. The difference between the aggregate of the minimum lease receivable, the initial direct costs and the unguaranteed residual value, and the aggregate of their present values is recognised as unearned finance income. Unearned finance income is recognised as finance income for the period using the effective interest method over the lease term. Contingent rents are credited to profit or loss in the period in which they are actually incurred. The net amount of financial lease receivables less unearned finance income is presented as other assets in the statement of financial position.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

(b) The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis over the lease term.

3 FINANCIAL RISK MANAGEMENT

Overview

The Group's business activities expose it to a variety of financial risks regarding analysis, evaluation, acceptance and management. The Group's aim is to achieve an appropriate balance between risks and returns and minimise potential adverse effects on the Group's financial performance. The main types of financial risks are credit risk, liquidity risk, market risk, operational risk, etc.

The Group's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, monitor the risks and to control the risk limits through reliable and up-to-date information systems. The Group regularly reviews its risk management policies and systems to reflect changes in markets and products and the latest best practice.

Risk management framework

The Board of Directors sets out risk management strategies, overall risk preference and risk tolerance level. The senior management establishes risk management policies and procedures according to the strategies set by the Board of Directors. The Risk Management Department (Crime Prevention Office) at Head Office leads the risk management. The risk management division in each operation department at Head Office, in each domestic and overseas branch and in each subsidiary undertakes specific risk management function. Internal Audit Department is responsible for independent review of risk management and control environment.

3.1 Credit risk

Credit risk is the risk of loss that a borrower or counterparty fails to or is unwilling to meet its obligations. Credit risk arises principally from loans and advances to customers, financial investments, derivative instruments and due from and placements with banks and other financial institutions. There is also credit risk in off-balance sheet items such as loan commitments, financial guarantees, acceptances and letters of credit. Credit risk is a major risk to which the Bank is exposed. Therefore, the Group manages and controls the overall credit risk in a prudent manner and the Risk Management Department (Crime Prevention Office) at Head Office reports regularly to the senior management and the Board of Directors of the Group.

3.1.1Credit risk management

The Group's credit risk management is assumed by major functions such as Corporate Business Department, Inclusive Finance Department, Personal Finance Business Department, Pacific Credit Card Centre, Credit Authorisation Department and Risk Management Department (Crime Prevention Office). They are responsible for the standardised management of corporate and retail credit businesses in terms of guidance on credit investment, credit investigation and report, credit approval, loan granting, post-loan monitoring and non-performing loan management.

(a) Loans and advances to customers and off-balance sheet commitments

As for corporate loans, the Group's relationship managers are responsible for receiving application files submitted by the applicants, conducting pre-loan investigation, assessing the credit risk, and raising the proposed rating. The Group adopts the hierarchical approval system at the branch and Head Office level based on the credit approval authority. Credit line is determined by taking into account the credit record, financial position, collaterals and guarantees of the applicant, overall credit risk of the credit portfolio, macroeconomic regulation and control policies and relevant laws and regulations. The Group keeps a close eye on the economic and financial trend and credit risk profile in the industry and provides more guidance on credit investment by formulating guidance for different industries, provides more guidance on credit investment, formulate guidance for different industries, strengthens daily risk pre-warning, monitoring and specific risk investigation, identify customers under major risks and material potential risk points, enhances the refinement of post-loan management. The independent loan granting centre shall review the compliance, completeness and effectiveness of relevant credit files before loan granting according to the applications for drawdown of credit line. The Group's relationship managers are primarily responsible for post-loan management. The Group adopts a series of tools and approaches, such as risk filtering, list management, risk warning and risk investigation, in daily risk monitoring of corporate loans. The Group manages non-performing loans mainly through (1) collection; (2) restructuring; (3) disposal of collaterals or recourse to the guarantors; (4) litigation or arbitration.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.1 Credit risk management *(Continued)*

(a) Loans and advances to customers and off-balance sheet commitments (Continued)

For retail credit assets, the Group manages the overall risk profile of retail credit business through on-site review and adoption of reporting system on material matters, strengthens daily risk monitoring and pre-warning through optimising management system, standardises operation process of retail credit business through formulating manuals for individual loans and small-enterprise loans, identifies and reveals material potential risks on a timely manner through strengthening risk monitoring and early-warning, and understands and forecasts the quality trends so as to adopt targeted risk control measures in advance by using stress testing and quality migration analysis. In addition, the Group continues to carry out fast response mechanism to address emergencies properly and maintains a list to manage those key risk projects through risk monitoring, guidance, collection and mitigation.

The Group adopts categorised management for retail credit assets on the basis of overdue ageing and guarantee type. With regard to retail credit customers with overdue loans, different approaches are adopted to collect such loans based on their overdue days.

Credit Card Centre of the Group is in charge of the operation and management of credit card business. Credit Card Centre of the Group adopts various supervisory and preventive measures. It reinforces data cross-validation to enhance risk prevention in the approval process, tightens credit line to high risk customers through subsequent credit investigation and enters into the collection process earlier than scheduled, effectively improves collection result through reasonable allocation of available resources, and optimises data analytic system to further enhance the management of credit card business.

(b) Treasury business

For treasury business (including debt investments), the Group chooses banks and other financial institutions prudently and balances the credit risk and return rate of investments. By making reference to internal and external credit rating information, the Group approves credits of different levels and uses an appropriate credit limit management system to review and adjust credit lines, aiming to manage the credit risk exposed to the treasury business.

For debt securities, internal and external ratings (such as Standard and Poor's) are used by the Group when available for managing the credit risk exposed to debt securities and bills. The investment in those debts and bills is to have better credit quality assets while maintaining readily available liquidity resource. The bond issuers involved with the Group are subject to the credit granting review and approval of the Head Office and credit limits are placed on such issuers.

Debt investments other than debt securities include investments in fund trust schemes, asset management plans and wealth management products set up by banking financial institutions. Fund trust schemes and asset management plans, the funds of which ultimately go to trust loans, are mainly managed and operated by third-party trustees and asset managers. The Group implements a rating system for accepting trust companies, securities companies and fund companies, sets credit limits for repurchase parties of trust beneficiary right, ultimate borrowers of targeted asset management plans, and issuers of inter-bank wealth management products, and carries out follow-up risk management on a regular basis.

As for derivative instruments, the Group maintains strict limits on net open derivative investment positions (i.e., the difference between long and short contracts), by both amount and maturity. 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 where their fair value is positive), which, in relation to derivative instruments, is only a fraction of the contract's notional amount used to express the amount outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market fluctuations. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except when the Group requires margin deposits from counterparties. The management has set limits of these contracts according to counterparty, and regularly monitor and control the actual credit risk when the Group concludes foreign exchange and interest rate contracts with other financial institutions and clients.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.1 Credit risk management *(Continued)*

(b) Treasury business (Continued)

The Group manages the credit quality of due from and placements with banks and other financial institutions, and balances arising from transactions for precious metals, by considering the size, financial position, the internal and external credit rating of the banks and financial institutions. The Head Office monitors and reviews the credit risk of due from and placements with banks and other financial institutions by counterparties periodically. Limits are placed on different counterparties.

(c) Credit-related commitments

Credit risk exposures to financial guarantees are the same as that of loans. However, commercial letters of credit are usually pledged by the relevant shipped goods, and therefore are subject to lower risk compared with direct loans. Credit-related commitments are included in the management of overall credit line granted to the applicant. For customers with transactions beyond the credit limit or infrequent transactions, the applicant shall be requested to provide relevant guarantee in order to reduce credit risk exposures.

(d) Credit risk quality

In accordance with the *Guideline for Loan Credit Risk Classification* issued by the China Banking and Insurance Regulatory Commission ("CBIRC"), the Group has established a loan credit risk classification system and performs credit risk management based on loan classification in one of five categories. The Group classifies loans into the following five categories: normal, special-mention, substandard, doubtful and loss, of which substandard, doubtful and loss loans are regarded as non-performing loans.

The five categories of loan classification into which the Group classifies its loans and advances to customers are set out below:

Normal:	Borrowers can honour the terms of their loans. There is no reason to doubt their ability to repay principal and interest in full on a timely basis.
Special-mention:	Borrowers are able to service their loans currently, although repayment may be adversely affected by specific factors.
Substandard:	Borrowers' ability to service their loans is in question and they cannot rely entirely on normal operating revenues to repay principal and interest. Losses may ensue even when collaterals or guarantees are invoked.
Doubtful:	Borrowers cannot repay principal and interest in full and significant losses will need to be recognised even when collaterals or guarantees are invoked.
Loss:	Only a small portion or none of the principal and interest can be recovered after taking all possible measures and exhausting all legal remedies.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.2 Expected credit loss ("ECL")

The Group measures the ECL of financial instruments at amortised cost or debt investments at fair value through other comprehensive income. The Group divides them into 3 stages by assessing whether there has been a significant increase in credit risk since initial recognition.

The Group measures the ECL of a financial instrument in a way that reflects:

(1) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;

(2) the time value of money;

(3) 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.

Stage classification

The Group divides them into 3 stages. Stage 1 is "financial assets without significant increase in credit risk since initial recognition", at which the Group only needs to measure ECL in the next 12 months. Stage 2 is "financial assets with significant increase in credit risk" and stage 3 is "credit-impaired financial assets", at both of which the Group needs to measure lifetime ECL.

Definition of credit-impaired

The Group considers a financial instrument is default, when it is credit-impaired. In general, the financial instruments that are more than 90 days past due are identified as in default.

The Group considers a financial instrument to be credit-impaired when one or more of the following criteria have been met:

(1) Principal (including advances, applies to below) or interest of the asset is more than 90 days past due;

(2) The issuer or obligor is in significant financial difficulty, or has already become insolvent

(3) It is becoming probable that the obligor will enter bankruptcy;

(4) An active market for that financial asset has disappeared because of financial difficulties of issuers;

(5) Other objective evidence indicating impairment of the financial asset.

A significant increase in credit risk

The Group assesses quarterly whether the credit risk on a financial instrument has increased significantly since initial recognition. In determining the stage classification of a financial asset, the Group considers all reasonable and supportable information which reflects whether there have been significant changes in credit risk, including that which is forward-looking. Based on an individual financial instrument or a portfolio of financial instruments with similar credit risk characteristics, the Group compares risk of default occurring at reporting date as with initial recognition, in order to determine possible changes in risk of default occurring during the expected life of the financial instrument. The Group considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following criteria have been met:

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.2 Expected credit loss ("ECL") *(Continued)*

Stage classification (Continued)

A significant increase in credit risk *(Continued)*

(1) Principal or interest of the instrument is more than 30 days past due;

(2) Credit rating of obligor changes significantly. Credit rating is based on both internal and external rating results, and the criteria are as follow: (a) a significant increase in credit risk is determined when internal and external rating during the reporting period is below the Group's credit acceptance standards; (b) When the borrower's internal rating is downgraded to a certain level, there has been a significant increase in credit risk. Criteria to determine significant increase in credit risk varies based on the original internal rating upon initial recognition;

(3) Significant adverse issues have negative impacts on obligator's repayment ability;

(4) Other circumstances of significant increase in credit risk. For example, appearance of other risk alarm indicators which imply growing potential risk, and could cause losses of financial assets to the Group.

The financial assets are moveable between stages. For instance, financial instruments originally classified at stage 1 should be downgraded to stage 2 if events occur such as a significant increase in credit risk. Financial instruments at stage 2 could be upgraded to stage 1 if credit risk decreases and the criteria for the determination of "a significant increase in credit risk" are no longer met.

Description of parameters, assumptions and estimation techniques

The Group recognises a loss allowance to different financial instruments at an amount equal to 12-month or lifetime expected credit loss based on whether there has been a significant increase in credit risk and whether the financial instrument is credit-impaired. ECL is the result of discounted product of the weighted average of "probability of default (PD)", "loss given default (LGD)", "exposure at default (EAD)" under the three scenarios, which are defined as follows:

Probability of default (PD) is the probability of default occurring of a client and its assets in a given period of time in the future.

Exposure at default (EAD) represents the total amount of on-balance sheet and off-balance sheet exposure at the time of default by debtor, reflecting the total amount of possible losses likely to be incurred. In general, this includes the utilised credit limit, interest receivable, the anticipated usage of unused credit facilities as well as the related expenses to be incurred.

Loss given default (LGD) represents the percentage of amount of loss to be incurred in the event of default to the total risk exposure. It is expressed as the loss percentage per unit of exposure which typically varies by nature of debtor, type and seniority of claim and the availability of collaterals or other credit enhancements.

Definition of default has been consistently applied to model establishment of probability of default (PD), exposure at default (EAD), loss given default (LGD) in ECL calculation throughout the Group.

Forward-looking information: scenarios and weights of economic indicators

The Group has established a macro-economic forecast model driven by Gross Domestic Product (GDP) growth rate to forecast values of macro-economic indicators in multiple categories including national accounts, price index, foreign trade, fixed asset investment, money supply, and interest under three economic scenarios (i.e., Optimistic scenario, Basic scenario, and Pessimistic scenario) annually. The forecasts, after evaluation and confirmation by economic experts of the Bank, are used in the impairment model. Basic scenario is defined as the most probable situation, which will become benchmark for other scenarios. Optimistic and pessimistic scenarios are possible scenarios which are better or worse than basic scenario respectively, and can also become a source of sensitivity analysis. These three scenarios apply to all portfolios.

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.2 Expected credit loss ("ECL") *(Continued)*

Description of parameters, assumptions and estimation techniques (Continued)

Estimation of ECL: the impairment models

The impairment models adopt a top down approach. Through grouping, the models cover the risk exposures of financial institutions, companies and retailers and reveal the regressive relationship between different macro-economic indicators (such as national accounts, price index, foreign trade, fixed asset investment, money supply, and interest) and risk parameters. The result of macro-economic indicator forecasts will form the basis for impairment calculation and represent "forward looking" elements of credit risk allowance in different scenarios.

Where impairment models cannot be established due to lack of data support, the Group endeavours to select appropriate methods in order to make prospective estimation. The Group makes prospective adjustments to impairment calculation of overseas branches and subsidiaries regularly based on macro-forecast data from authoritative institutions (such as IMF and the World Bank). For asset portfolios not covered by impairment models, expected loss rate is set by referring to that of similar asset portfolios with impairment models available.

Management also overlays adjustments to asset portfolios whose non-linear risk characteristics cannot be adequately reflected through impairment models, such as Group credit exposures with higher possibility of risk spreading among borrowers' group entities and credit exposures to borrowers which need to be actively and properly managed to achieve overcapacity reduction. These adjustments do not have a significant impact on the Group's impairment allowance.

Grouping of instruments with similar risk characteristics

To calculate the relevance between ECL allowance modelled on a collective basis and macro-economic indicators, a grouping of exposure is performed on the basis of shared risk characteristics, so that risk exposures within a group are homogenous. In performing this grouping, there must be sufficient information for the Group to be statistically credible. Where sufficient information is not available internally, the Group has considered benchmarking internal/external supplementary data for modelling purposes. Non-retail assets of the Group are mainly grouped according to industries, while retail assets are mainly grouped based on product types, repayment methods and so on.

Economic scenarios and weightings

As at 31 December 2019, the significant assumptions used to estimate expected credit losses are presented as three economic scenarios, including "Optimistic scenario", "Basic scenario", and "Pessimistic scenario", which are applicable to all groups. The weighting of "Basic scenario" adopted by the Group overweights the aggregated weightings of other scenarios.

Sensitivity analysis

At the balance sheet date, the probability-weighted impairment allowance increased by the following amounts compared with basic scenario impairment allowance:

	As at 31 December 2019	As at 31 December 2018
Corporate loans	**468**	277
Individual loans	**29**	88
Debt investments at amortise cost and fair value through other comprehensive income	**21**	1

If the Optimistic and Pessimistic scenario weightings both increase by 10%, the impairment allowance of loans and advances will increase RMB497 million (31 December 2018: RMB304 million), and the impairment allowance of debt investments at amortise cost and fair value through other comprehensive income will increase RMB21 million (31 December 2018: RMB2 million).

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.3 Maximum exposure to credit risk

3.1.3.1 Maximum exposure to credit risk – financial instruments included in impairment assessment

The Group categorises asset risk characteristics based on the quality of the assets, differentiating financial instruments included in expected credit losses calculation as “Low risk”, “Medium risk”, “High risk” and “Impaired”. “Low risk” refers to counterparty with strong repayment ability, low probability of impairment in the future, and minor effect of adverse external factors; “Medium risk” refers to counterparty with certain repayment ability, but continuously unstable and worsening business, finance, and economic conditions will potentially cause its repayment ability to descend; “High risk” refers to counterparty with existence of adverse factors having significant effect on repayment ability or high probability of impairment in the future; and “Impaired” refers to the assets met the Group’s definition of credit-impaired.

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.3 Maximum exposure to credit risk (Continued)

3.1.3.1 Maximum exposure to credit risk – financial instruments included in impairment assessment (Continued)

The table below analyses exposure to credit risk of financial instruments included in expected credit losses assessment. The balance of financial instruments below is the maximum exposure to credit risk of these instruments in the Group.

As at 31 December 2019	Low risk	Medium risk	High risk	Impaired	Domestic branches	Overseas and subsidiaries	Group total	Allowance for impairment losses	Group carrying amount	As at 31 December 2018 Group carrying amount
On-balance sheet item										
Cash and balances with central banks (Stage 1)	729,859	–	–	–	729,859	15,845	745,704	–	745,704	825,506
Loans and advances to customers (Corporate)										
– at amortised cost	1,501,665	1,103,396	106,046	56,508	2,767,615	546,481	3,314,096	(105,170)	3,208,926	2,931,520
Stage 1	1,500,753	1,074,724	2,796	–	2,578,273	536,706	3,114,979	(23,125)	3,091,854	2,825,633
Stage 2	912	28,672	103,250	–	132,834	6,867	139,701	(39,960)	99,741	85,317
Stage 3	–	–	–	56,508	56,508	2,908	59,416	(42,085)	17,331	20,570
– at FVOCI	113,994	113,800	7,567	53	235,414	–	235,414	–	235,414	184,184
Stage 1	113,994	112,323	2,640	–	228,957	–	228,957	–	228,957	177,711
Stage 2	–	1,477	4,927	–	6,404	–	6,404	–	6,404	6,448
Stage 3	–	–	–	53	53	–	53	–	53	25
Loans and advances to customers (Individuals)										
– at amortised cost	1,030,543	645,992	19,533	18,357	1,714,425	40,340	1,754,765	(27,549)	1,727,216	1,614,169
Stage 1	1,030,197	644,783	12,138	–	1,687,118	39,988	1,727,106	(8,394)	1,718,712	1,604,705
Stage 2	346	1,209	7,395	–	8,950	135	9,085	(3,193)	5,892	5,570
Stage 3	–	–	–	18,357	18,357	217	18,574	(15,962)	2,612	3,894
Due from and placements with banks and other financial institutions (Stage 1)	395,742	1,005	–	–	396,747	252,800	649,547	(1,059)	648,488	848,067
Financial investments at amortised cost	1,853,796	29,868	793	1,064	1,885,521	47,431	1,932,952	(3,263)	1,929,689	2,000,505
Stage 1	1,853,796	29,868	–	–	1,883,664	46,408	1,930,072	(2,455)	1,927,617	1,999,905
Stage 2	–	–	793	–	793	704	1,497	(178)	1,319	–
Stage 3	–	–	–	1,064	1,064	319	1,383	(630)	753	600
Debt investments at FVOCI	263,029	2,054	–	–	265,083	395,628	660,711	–	660,711	437,630
Stage 1	263,029	2,054	–	–	265,083	395,628	660,711	–	660,711	437,630
Stage 2	–	–	–	–	–	–	–	–	–	–
Stage 3	–	–	–	–	–	–	–	–	–	–
Other financial assets at amortised cost	17,360	9,415	294	1,703	28,772	15,148	43,920	(3,437)	40,483	25,838
Stage 1	17,359	9,409	–	–	26,768	15,148	41,916	(2,139)	39,777	25,251
Stage 2	1	6	294	–	301	–	301	(86)	215	131
Stage 3	–	–	–	1,703	1,703	–	1,703	(1,212)	491	456
On-balance sheet total	5,905,988	1,905,530	134,233	77,685	8,023,436	1,313,673	9,337,109	(140,478)	9,196,631	8,867,419
Financial guarantees and credit related commitments										
Stage 1	970,178	420,254	977	–	1,391,409	67,906	1,459,315	(5,358)	1,453,957	1,446,824
Stage 2	–	2,465	9,792	–	12,257	598	12,855	(974)	11,881	4,313
Off-balance sheet total	970,178	422,719	10,769	–	1,403,666	68,504	1,472,170	(6,332)	1,465,838	1,451,137
Total	6,876,166	2,328,249	145,002	77,685	9,427,102	1,382,177	10,809,279	(146,810)	10,662,469	10,318,556

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.3 Maximum exposure to credit risk *(Continued)*

3.1.3.2 Maximum exposure to credit risk – financial instruments not included in impairment assessment

The analysis of credit risk exposure of those financial assets which are not included in the impairment assessment are as follows:

	Maximum exposure to credit risk	
	31 December 2019	31 December 2018
Financial assets at fair value through profit or loss		
Loans and advances to customers	**–**	494
Derivative financial instruments	**20,937**	30,730
Debt securities	**134,950**	132,828
Fund investments and other asset management products	**170,435**	187,601
Precious metal contracts	**39,532**	37,232
Placements with banks and other financial institutions	**11,864**	8,393
Total	**377,718**	397,278

3.1.3.3 Collaterals and other credit enhancements

The Group manages, limits and controls concentrations of credit risk wherever they are identified, in particular, to individual counterparties, company and groups, industry segments and geographical regions.

The Group structures the levels of credit risk it undertakes by placing limits in relation to one borrower, or group of borrowers. Such risks are monitored on a regular basis and subject to annual or more frequent review, whenever necessary.

The exposure to any single borrower including banks and brokers is further restricted by sub-limits covering on-balance and off-balance sheet exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing their lending limits where appropriate.

Some other specific control and risk mitigation measures are outlined below.

(a) Collaterals

The Group employs a range of policies and practices to mitigate credit risk. The most useful practice is to accept collaterals or pledges. The Group implements guidelines on the acceptability of specific classes of collaterals and pledges. The principal types of collaterals and pledges for loans and advances to customers are:

- Residential properties;
- Business assets such as premises, inventory and receivables;
- Financial instruments such as debt securities and stocks.

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.3 Maximum exposure to credit risk *(Continued)*

3.1.3.3 Collaterals and other credit enhancements (Continued)

(a) Collaterals *(Continued)*

The value of collaterals at the time of loan origination is determined by the Credit Authorisation Department and the amount of the loans granted is subject to loan-to-value ratio limits based on collateral types. The principal types of collaterals for corporate loans and individual loans are as follows:

Collaterals	**Maximum loan-to-value ratio**
Cash deposits with the Group	90%
PRC treasury bonds	90%
Financial institution bonds	90%
Publicly traded stocks	60%
Rights to collect fees or right of management	65%
Properties	70%
Land use rights	70%
Vehicles	50%

Long-term loans and advances to corporate and individual customers are generally secured, while revolving individual credit facilities are generally unsecured. In addition, in order to minimise the credit loss the Group will seek additional collaterals and pledges from the counterparties as soon as impairment indicators are noted for the individual loans and advances.

For loans guaranteed by a third-party guarantor, the Group will assess the financial condition, credit history and ability to meet obligations of the guarantor.

Collaterals and pledges held as security for financial assets other than loans and advances to customers are determined by the nature of the instrument. Debt securities, PRC treasury bonds and PBOC bills are generally unsecured, with the exception of asset-backed securities, which are secured by portfolios of financial instruments.

The Group closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that the Group will take possession of collateral to mitigate potential credit losses. Financial assets that are credit-impaired and related collateral held in order to mitigate potential losses are shown below:

	Gross exposure	**Impairment allowance**	**Carrying amount**	**Fair value of collateral held**
As at 31 December 2019				
Credit-impaired assets				
Loans and advances to customers				
Loans to corporate entities	**59,469**	**(42,085)**	**17,384**	**18,839**
Loans to individuals	**18,574**	**(15,962)**	**2,612**	**10,559**
Financial investments	**3,274**	**(1,202)**	**2,072**	**6,079**

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.3 Maximum exposure to credit risk *(Continued)*

3.1.3.3 Collaterals and other credit enhancements (Continued)

(a) Collaterals *(Continued)*

	Gross exposure	Impairment allowance	Carrying amount	Fair value of collateral held
As at 31 December 2018				
Credit-impaired assets				
Loans and advances to customers				
Loans to corporate entities	57,172	(36,577)	20,595	17,484
Loans to individuals	15,340	(11,446)	3,894	10,865
Financial investments	1,552	(952)	600	1,041

(b) 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 an offset 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 counterparty 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 each transaction subject to the arrangement affects credit risk.

3.1.4 Derivative instruments

The Group undertakes its transactions in foreign exchange, commodity, interest rate and other derivative contracts with other financial institutions and customers. The management has established limits for these contracts based on counterparties, industry sectors and countries. Actual credit exposures and limits are regularly monitored and controlled by management.

Credit risk-weighted amounts

	As at 31 December 2019	As at 31 December 2018
Counterparty credit risk-weighted amount	**36,175**	26,895

The credit risk-weighted amounts are the amounts calculated with reference to the guidelines issued by the CBIRC and are dependent on, amongst other factors, the creditworthiness of the counterparty and the maturity characteristics of each type of contract.

The credit risk-weighted amounts stated above have not taken the effects of netting arrangements into account.

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.5 Foreclosed assets

	As at 31 December 2019	As at 31 December 2018
Buildings	**873**	913
Land use rights	**20**	20
Others	**14**	19
Gross	**907**	952
Less: Impairment allowances	**(148)**	(128)
Net	**759**	824

Foreclosed assets are sold as soon as practicable with the proceeds used to reduce the outstanding indebtedness. The Group does not generally occupy foreclosed assets for its own business use. Foreclosed assets are classified as other assets in the statement of financial position.

3.1.6 Concentration risk analysis for financial assets with credit risk exposure

The Group mainly manages concentration risk for loans and advances to customers by industry sectors and also manages concentration risk for financial assets by geographical sectors.

Geographical sectors

	Mainland China	Hong Kong	Others	Total
As at 31 December 2019				
Financial assets				
Balances with central banks	732,414	1,027	11,972	745,413
Due from and placements with banks and other financial institutions	546,171	30,082	72,235	648,488
Derivative financial assets	15,636	4,295	1,006	20,937
Financial investments at FVPL	321,366	10,064	25,351	356,781
Loans and advances to customers	4,792,758	218,575	172,320	5,183,653
Financial investments at FVOCI	347,311	112,537	200,863	660,711
Financial investments at amortised cost	1,915,749	4,181	9,759	1,929,689
Other financial assets	37,301	15,414	2,513	55,228
	8,708,706	396,175	496,019	9,600,900
Off-balance sheet exposures				
Guarantees, acceptances and letters of credit	652,860	13,761	13,646	680,267
Loan commitments and other credit related commitments	750,807	30,572	10,524	791,903
	1,403,667	44,333	24,170	1,472,170

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.6 Concentration risk analysis for financial assets with credit risk exposure *(Continued)*

Geographical sectors (Continued)

	Mainland China	Hong Kong	Others	Total
As at 31 December 2018				
Financial assets				
Balances with central banks	790,382	2,548	32,576	825,506
Due from and placements with banks and other financial institutions	689,611	69,231	89,225	848,067
Derivative financial assets	22,541	5,646	2,543	30,730
Financial investments at FVPL	333,693	7,726	24,635	366,054
Loans and advances to customers	4,385,888	190,464	166,020	4,742,372
Financial investments at FVOCI	110,740	80,452	246,438	437,630
Financial investments at amortised cost	1,962,108	4,154	34,243	2,000,505
Other financial assets	24,945	10,491	4,481	39,917
	8,319,908	370,712	600,161	9,290,781
Off-balance sheet exposures				
Guarantees, acceptances and letters of credit	605,869	11,595	20,320	637,784
Credit-related commitments and other credit-related commitments	766,769	36,213	15,452	818,434
	1,372,638	47,808	35,772	1,456,218

(a) Geographical risk concentration for loans and advances to customers

	As at 31 December 2019		As at 31 December 2018	
		%		%
Northern China (1)	**689,601**	**13.00**	619,891	12.77
North Eastern China (2)	**212,871**	**4.01**	205,989	4.24
Eastern China (3)	**1,830,275**	**34.51**	1,710,884	35.24
Central and Southern China (4)	**1,106,903**	**20.87**	941,511	19.40
Western China (5)	**532,796**	**10.04**	480,670	9.90
Overseas (6)	**391,517**	**7.38**	355,681	7.33
Head Office	**540,312**	**10.19**	539,602	11.12
Gross amount of loans and advances	**5,304,275**	**100.00**	4,854,228	100.00

Note:

(1) Including Beijing, Tianjin, Hebei Province, Shanxi Province and Inner Mongolia Autonomous Region.

(2) Including Liaoning Province, Jilin Province and Heilongjiang Province.

(3) Including Shanghai (excluding Head Office), Jiangsu Province, Zhejiang Province, Anhui Province, Fujian Province, Jiangxi Province and Shandong Province.

(4) Including Henan Province, Hunan Province, Hubei Province, Guangdong Province, Hainan Province and Guangxi Zhuang Autonomous Region.

(5) Including Chongqing, Sichuan Province, Guizhou Province, Yunnan Province, Shaanxi Province, Gansu Province, Qinghai Province, Ningxia Autonomous Region and Xinjiang Uyghur Autonomous Region.

(6) Including Hong Kong, New York, Tokyo, Singapore, Seoul, Frankfurt, Macau, Ho Chi Minh City, San Francisco, Sydney, Taipei, London, Luxembourg, Brisbane, Paris, Rome, Brazil, Toronto, Melbourne, Prague and other overseas affiliates.

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.6 Concentration risk analysis for financial assets with credit risk exposure *(Continued)*

(b) Industry analysis for loans and advances to customers

	As at 31 December 2019		As at 31 December 2018	
		%		%
Corporate loans				
Mining	**117,555**	**2.22**	119,091	2.45
Manufacturing				
– Petroleum and chemical	***106,108***	***2.00***	*104,806*	*2.16*
– Electronics	***95,736***	***1.80***	*95,858*	*1.97*
– Steel	***35,156***	***0.66***	*33,241*	*0.68*
– Machinery	***93,393***	***1.76***	*93,828*	*1.93*
– Textile and clothing	***27,049***	***0.51***	*29,146*	*0.60*
– Other manufacturing	***243,701***	***4.60***	*224,533*	*4.64*
Production and supply of power, heat, gas and water	**215,642**	**4.07**	186,117	3.83
Construction	**135,998**	**2.56**	114,577	2.36
Transportation, storage and postal service	**637,943**	**12.03**	573,151	11.82
Information transmission, software and IT services	**28,346**	**0.53**	28,682	0.59
Wholesale and retail	**221,381**	**4.17**	246,706	5.08
Accommodation and catering	**32,259**	**0.61**	34,486	0.71
Finance	**107,865**	**2.03**	98,342	2.03
Real estate	**264,495**	**4.99**	216,536	4.46
Leasing and commercial services	**508,863**	**9.59**	413,716	8.52
Water conservancy, environmental and other public services	**284,797**	**5.37**	263,235	5.42
Education, science, culture and public health	**96,875**	**1.83**	89,436	1.84
Others	**93,314**	**1.76**	96,428	1.99
Discounted bills	**203,034**	**3.83**	156,686	3.23
Total corporate loans	**3,549,510**	**66.92**	3,218,601	66.31
Individual loans				
Mortgages	**1,135,428**	**21.41**	1,007,528	20.75
Credit cards	**467,387**	**8.81**	505,190	10.41
Others	**151,950**	**2.86**	122,909	2.53
Total individual loans	**1,754,765**	**33.08**	1,635,627	33.69
Gross amount of loans and advances before impairment allowances	**5,304,275**	**100.00**	4,854,228	100.00

Note: The classification of industries is consistent with the latest national standards for industry classification (Industrial classification for national economic activities (GB/T 4754-2017) issued by SAC and AQSIQ in 2017).

The industry risk concentration analysis for loans and advances to customers is based on the type of industry of the borrowers.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk

3.2.1 Overview

Market risk is risk of loss on the Group's on balance sheet and off balance sheet businesses, which is originated from the unfavourable changes and fluctuations in interest rates, foreign exchange rates, commodity price and equity product price. Market risk consists of interest rate risk, foreign exchange rate risk, commodity price risk and equity product price risk. The market risk of the Group mainly comprises interest rate risk and foreign exchange risk.

The Group established a management model of "large and small middle offices" for its market risk management, which is a centralised control framework led by Board of Directors, Board of Supervisors and senior management. The Assets and Liabilities Management Department takes the lead in the Group's market risk management, while business units such as financial markets department, precious metals trading centre, domestic and overseas branches and subsidiaries are the execution units of the Bank's market risk management. The risk management department and the internal audit department are responsible for the independent validation and internal audit of the market risk management system of the Bank.

In accordance with the requirements of the CBIRC, the Group's financial instrument positions are divided into trading book and banking book. The trading book consists of financial instruments held either for trading intent or economic hedging for other elements of the trading book. The banking book consists of all financial instruments other than those included in trading book. The Group recognises, measures, monitors and controls the market risks in trading book and banking book according to their nature and characteristics.

With regard to the exchange rate risk and the interest rate risk of trading book, the Group established an effective limit management system by implementing Net Position, Risk Sensitivity, Value at Risk ("VaR") and other indicators. Meanwhile, with regard to the interest risk of banking book, net interest income sensitivity tests and gap analysis are the major tools used by the Group to monitor the interest risk of its overall businesses. In addition, through adequate repricing management and structure adjustment of assets and liabilities, the Group strives to maximise its rate of return while keeping its risks under control.

The Group has continuously improved the management system of market risk. The Group conducted stress tests on historical scenarios and hypothetical scenarios in the consideration of the Group's major market risk factors. The Group has realised daily automatic collection of trading data and market data in the system. The Group conducted the management of risk capital and VaR quota, and formulated the quota allocation plans.

The Group also applies sensitivity analysis to assess and measure the market risk of trading book and banking book. Sensitivity analysis indicates the impact on the relevant market risk assuming that only a single variable changes. As any risk variable rarely changes isolatedly, and the correlation between variables will have a significant effect on the final impact amount of the change of a risk variable, the results of sensitivity analysis can only provide limited market risk information.

The major measurement techniques used to measure and control market risk are outlined below:

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.2 VaR

VaR refers to the maximum loss that an investment portfolio may incur at a given confidence level and holding period caused by the changes in market price factors such as interest rates and exchange rates etc. The Group adopted the historical simulation method to calculate daily VaR (99% confidence interval, the holding period of one day).

A summary of VaR by risk type of the Group's portfolios is as follows:

Items

		Year ended 31 December 2019		
	31 December 2019	**Average**	**Maximum**	**Minimum**
VaR	**464**	**586**	**788**	**462**
Including: Interest rate risk	**167**	**171**	**209**	**112**
Foreign exchange risk	**500**	**632**	**846**	**492**

Items

		Year ended 31 December 2018		
	31 December 2018	Average	Maximum	Minimum
VaR	586	556	690	467
Including: Interest rate risk	176	159	218	68
Foreign exchange risk	625	538	701	442

3.2.3 Sensitivity analysis

Interest rate sensitivity analysis

The table below illustrates the impact on net profit of the Group for the following year based on the structure of financial assets and liabilities as at the date of statement of financial position, resulting from a parallel upward or downward shift of 100 basis points in related yield curves.

	Changes in net profit	
	As at 31 December 2019	As at 31 December 2018
+100 basis points parallel shift in yield curves	**15,794**	14,029
-100 basis points parallel shift in yield curves	**(15,794)**	(14,029)

The table below illustrates the impact on other comprehensive income of the Group for the following year based on the structure of financial assets and liabilities as at the date of statement of financial position, resulting from a parallel upward or downward shift of 100 basis points in related yield curves.

	Changes in other comprehensive income	
	As at 31 December 2019	As at 31 December 2018
+100 basis points parallel shift in yield curves	**(11,748)**	(5,572)
-100 basis points parallel shift in yield curves	**11,570**	5,740

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.3 Sensitivity analysis *(Continued)*

Interest rate sensitivity analysis (Continued)

The above-mentioned impact on other comprehensive income arises from the changes in the fair value of fixed-interest-rate bonds at fair value through other comprehensive income, and loans and advances to customers at fair value through other comprehensive income.

The results of the interest rate sensitivity analysis set out in the table above are illustrative only and are based on simplified scenarios. The figures represent the projected impact to the net profit and other comprehensive income caused by the projected movement of current interest risk structure yield curves. This effect, however, does not take into account actions that would be taken by the Group to mitigate the impact of interest rate changes. The projections above also assume that interest rates of all maturities excluding demand deposits move by the same amount and, therefore, do not reflect the potential impact on net profit due to changes in certain rates while others remain unchanged. The projections are based on other simplified assumptions as well, including that all positions are to be held to maturity. There will be changes to the projection if positions are not held to maturity but it is not expected that the changes would be material.

The Group believes the assumption does not represent the Group's policy on use of funds and interest rate risk management. As a result, the above impact may differ from the actual situation.

Foreign exchange sensitivity analysis

The table below illustrates the impact of a concurrent appreciation or depreciation of RMB spot and forward rates against HKD and USD by 5% on the Group's net profit:

	Changes in net profit	
	As at 31 December 2019	As at 31 December 2018
5% appreciation of RMB	**(1,758)**	(1,755)
5% depreciation of RMB	**1,758**	1,755

The table below illustrates the impact of a concurrent appreciation or depreciation of RMB spot and forward rates against HKD and USD by 5% on the Group's other comprehensive income:

	Changes in other comprehensive income	
	As at 31 December 2019	As at 31 December 2018
5% appreciation of RMB	**(954)**	(891)
5% depreciation of RMB	**954**	891

The impact on net profit arises from the influences of RMB exchange rate fluctuation on the net position of monetary assets (excluding other book value than amortised cost of monetary assets at fair value through other comprehensive income) and liabilities denominated in foreign currencies, the net position of non-monetary financial assets (excluding non-monetary items denominated in foreign currencies measured at fair value through other comprehensive income) and liabilities denominated in foreign currencies measured at fair value, and the fair value of currency derivatives denominated in RMB.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.3 Sensitivity analysis *(Continued)*

Foreign exchange sensitivity analysis (Continued)

The impact on other comprehensive income arises from the influences of RMB exchange rate fluctuation on the differences on translation of foreign currency financial statements of foreign operators, the overseas investment portion of monetary assets denominated in foreign currencies, other book value other than amortised cost of the non-monetary items denominated in foreign currencies measured at fair value through other comprehensive income (such as stock) and monetary items at fair value through other comprehensive income.

The above impact on net profit is based on the assumption that the sensitive position of the Group's year-end exchange rate and currency derivatives denominated in RMB remain unchanged around the year. While in practice, the Group will, based on its judgement on the trend of exchange rate, actively adjust the foreign currency position and use appropriate derivative instruments to mitigate the impact of the foreign currency risk. Therefore, the above impact might differ from the actual situation.

3.2.4 Interest rate risk

The Group's interest rate risk mainly arises from interest rate repricing and maturity mismatching of assets and liabilities, and the fluctuation of market interest rates, as well as from the adjustments in the interest rate policies made by the People's Bank of China ("PBOC"). On 20 July 2013, PBOC cancelled the lower limit of benchmark interest rates of loans dominated in RMB, allowing financial institutions to determine the loan interest rates independently based on commercial principles. On 24 October 2015, PBOC cancelled the upper limit of the benchmark interest rates for deposits. The Group conducts most of its domestic businesses including loans and deposits as well as the majority of its financial guarantees and credit commitments at benchmark interest rates published by PBOC. On 20 August 2019, the first quotation formed in accordance with the new Loan Prime Rate (LPR) mechanism was officially launched, and the newly issued loans are priced mainly at LPR. On 28 December 2019, PBOC announced that financial institutions should complete the conversion of the pricing benchmark of existing floating rate loans to LPR between March and August in 2020. Therefore, the Group organised a team to promote the processes, developing the implementation plan and offering guidances to the conversion, and managing the interest rate risks effectively at the same time. With the LPR mechanism, the Group's exposure to interest rate risk will reduce, consequently interest margin will be more stable under different monetary policies. The Group has initially established a relatively complete interest rate risk monitoring system. By using the gap analysis system, the Group regularly monitors the repricing maturity gap of interest rate-sensitive assets and liabilities throughout the Group, takes the initiative to adjust the proportion of interest-bearing assets at floating interest rates and fixed interest rates, and adjusts the repricing term structure of interest rate and manages interest rate risk by applying appropriate derivatives such as interest rate swaps based on allocation strategy of assets and liabilities. Consequently, the Group is less vulnerable to interest rate risk.

During the reporting period, the Group closely monitored the interest rate trend for RMB and foreign currencies, conducted specific management of risk limits, and strengthened comprehensive operations and limit monitoring. In addition, the Group, by rationally adjusting the loan repricing strategies, reinforced the specific management of price negotiation to maximise its rate of return while keeping its risks under control.

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.4 Interest rate risk *(Continued)*

At the date of statement of financial position, the Group's assets and liabilities categorised by the repricing date or maturity date (whichever is earlier) are as follows:

	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Non-interest bearing	Total
As at 31 December 2019							
Assets							
Cash and balances with central banks	729,335	–	–	–	–	30,850	760,185
Due from and placements with banks and other financial institutions	217,899	94,206	262,663	57,535	10,639	5,546	648,488
Derivative financial assets	–	–	–	–	–	20,937	20,937
Financial investments at FVPL	24,970	27,425	49,446	39,634	35,329	229,694	406,498
Loans and advances to customers	2,422,040	475,631	1,695,459	190,829	91,463	308,231	5,183,653
Financial investments at FVOCI	61,795	152,393	87,723	243,110	109,231	15,404	669,656
Financial investments at amortised cost	21,782	39,197	249,195	1,027,815	562,411	29,289	1,929,689
Other assets	493	–	–	–	–	286,001	286,494
Total assets	3,478,314	788,852	2,344,486	1,558,923	809,073	925,952	9,905,600
Liabilities							
Due to and placements from banks and other financial institutions	(720,024)	(273,836)	(837,746)	(39,236)	(19,803)	(13,437)	(1,904,082)
Financial liabilities at FVPL	(4,103)	(6,006)	(6,779)	(8,190)	–	(1,902)	(26,980)
Derivative financial liabilities	–	–	–	–	–	(26,424)	(26,424)
Due to customers	(3,188,008)	(668,974)	(998,242)	(1,102,269)	(26,026)	(89,389)	(6,072,908)
Other liabilities	(47,541)	(123,654)	(391,494)	(241,821)	(136,354)	(133,430)	(1,074,294)
Total liabilities	(3,959,676)	(1,072,470)	(2,234,261)	(1,391,516)	(182,183)	(264,582)	(9,104,688)
Total interest sensitivity gap	(481,362)	(283,618)	110,225	167,407	626,890	661,370	800,912

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.4 ***Interest rate risk*** *(Continued)*

	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Non-interest bearing	Total
As at 31 December 2018							
Assets							
Cash and balances with central banks	815,408	–	–	–	–	24,763	840,171
Due from and placements with banks and other financial institutions	421,426	65,741	203,758	143,923	5,463	7,756	848,067
Derivative financial assets	–	–	–	–	–	30,730	30,730
Financial investments at FVPL	27,857	18,051	48,317	43,896	33,166	205,099	376,386
Loans and advances to customers	2,211,528	521,424	1,544,308	101,108	64,324	299,680	4,742,372
Financial investments at FVOCI	50,183	123,857	80,836	125,220	53,657	11,265	445,018
Financial investments at amortised costs	41,240	59,505	210,740	1,165,477	494,443	29,100	2,000,505
Other assets	425	–	–	–	–	247,497	247,922
Total assets	3,568,067	788,578	2,087,959	1,579,624	651,053	855,890	9,531,171
Liabilities							
Due to and placements from banks and other financial institutions	(776,575)	(325,116)	(955,468)	(46,009)	(26,521)	(32,604)	(2,162,293)
Financial liabilities at FVPL	(2,968)	(5,760)	(5,948)	(7,401)	–	(1,032)	(23,109)
Derivative financial liabilities	–	–	–	–	–	(28,105)	(28,105)
Due to customers	(2,970,102)	(391,142)	(1,609,799)	(661,237)	(75,540)	(85,504)	(5,793,324)
Other liabilities	(44,739)	(108,504)	(233,212)	(185,771)	(141,087)	(105,719)	(819,032)
Total liabilities	(3,794,384)	(830,522)	(2,804,427)	(900,418)	(243,148)	(252,964)	(8,825,863)
Total interest sensitivity gap	(226,317)	(41,944)	(716,468)	679,206	407,905	602,926	705,308

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.5 Foreign exchange risk

The Group conducts the majority of its businesses in RMB, and the recording currency is RMB. Certain foreign transactions are conducted in USD, HKD and other currencies. The exchange rate of RMB to USD, HKD or other currencies is subject to the trading rules of China Foreign Exchange Trade System. Exchange rate risk mainly results from currency mismatch of foreign currency assets and liabilities and off balance sheet currency exposures. The Group has formulated management measures for exchange rate risks, defining the functional division and scope of work of the exchange rate risk management department, risk identification, measurement, monitoring and control methods, and specific measures. Moreover, the Group controls exchange rate risk by setting relevant limits, taking the initiative to adjust the structure of foreign currency assets for a proper matching of currency structure of assets and liabilities, and applying appropriate exchange rate financial derivatives for transfers and hedging based on its own risk tolerance and operating level.

As at 31 December 2019, the exchange rates for US dollar and HK dollar are 1 US dollar to RMB6.9762 (31 December 2018: RMB6.8632) and 1 HK dollar to RMB0.8958 (31 December 2018: RMB0.8762), respectively.

Carrying amounts of the Group's total assets and liabilities categorised by the original currency as at the date of statement of financial position are as follows:

	RMB	USD (RMB Equivalent)	HKD (RMB Equivalent)	Others (RMB Equivalent)	Total
As at 31 December 2019					
Assets					
Cash and balances with central banks	730,031	17,082	1,874	11,198	760,185
Due from and placements with banks and other financial institutions	296,047	308,665	22,958	20,818	648,488
Derivative financial assets	17,991	1,503	1,206	237	20,937
Financial investments at FVPL	336,039	43,167	2,947	24,345	406,498
Loans and advances to customers	4,664,589	282,461	162,892	73,711	5,183,653
Financial investments at FVOCI	277,710	282,552	55,646	53,748	669,656
Financial investments at amortised cost	1,910,731	16,213	–	2,745	1,929,689
Other assets	142,776	132,093	10,646	979	286,494
Total assets	8,375,914	1,083,736	258,169	187,781	9,905,600
Liabilities					
Due to and placements from banks and other financial institutions	(1,489,552)	(354,673)	(7,031)	(52,826)	(1,904,082)
Financial liabilities at FVPL	(2,273)	(1,882)	(10,963)	(11,862)	(26,980)
Derivative financial liabilities	(21,149)	(3,058)	(1,815)	(402)	(26,424)
Due to customers	(5,403,579)	(391,803)	(241,714)	(35,812)	(6,072,908)
Other liabilities	(844,270)	(187,717)	(22,048)	(20,259)	(1,074,294)
Total liabilities	(7,760,823)	(939,133)	(283,571)	(121,161)	(9,104,688)
Net position	615,091	144,603	(25,402)	66,620	800,912
Financial guarantees and credit-related commitments	1,327,987	110,286	18,482	15,415	1,472,170

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.5 *Foreign exchange risk* (Continued)

	RMB	USD (RMB Equivalent)	HKD (RMB Equivalent)	Others (RMB Equivalent)	Total
As at 31 December 2018					
Assets					
Cash and balances with central banks	784,959	30,993	3,390	20,829	840,171
Due from and placements with banks and other financial institutions	488,242	334,579	13,180	12,066	848,067
Derivative financial assets	25,102	1,738	3,344	546	30,730
Financial investments at FVPL	328,378	29,449	759	17,800	376,386
Loans and advances to customers	4,245,922	297,273	138,325	60,852	4,742,372
Financial investments at FVOCI	157,284	199,484	45,069	43,181	445,018
Financial investments at amortised cost	1,981,956	15,707	–	2,842	2,000,505
Other assets	121,427	117,928	7,410	1,157	247,922
Total assets	8,133,270	1,027,151	211,477	159,273	9,531,171
Liabilities					
Due to and placements from banks and other financial institutions	(1,776,123)	(332,360)	(2,364)	(51,446)	(2,162,293)
Financial liabilities at FVPL	(4,155)	(1,137)	(7,234)	(10,583)	(23,109)
Derivative financial liabilities	(24,021)	(900)	(2,809)	(375)	(28,105)
Due to customers	(5,122,012)	(437,650)	(207,753)	(25,909)	(5,793,324)
Other liabilities	(567,133)	(209,406)	(18,064)	(24,429)	(819,032)
Total liabilities	(7,493,444)	(981,453)	(238,224)	(112,742)	(8,825,863)
Net position	639,826	45,698	(26,747)	46,531	705,308
Financial guarantees and credit-related commitments	1,281,258	134,995	27,704	12,261	1,456,218

3.2.6 *Other price risk*

The Group is exposed to other price risk arising from financial assets such as equity investments and derivatives linked to commodity price. The equity investments arise from the proprietary trading of the Group's subsidiaries which hold the qualification of securities dealing and brokerage as well. As for the proprietary trading exposure, the Group enforces strict management of the risk exposure limit and the balance is insignificant to the Group's financial assets. The Group considers the exposure to the other price risk to be insignificant.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk

3.3.1 Overview

Liquidity risk is the risk that occurs when the Group cannot obtain sufficient funds in time and at a reasonable cost to repay debts when they are due, fulfill other payment obligations, or meet other funding needs in the normal course of business. The Group's liquidity risk mainly comes from depositors' early or centralised withdrawals, borrowers' deferred repayment of loans, the amount of assets and liabilities and maturity mismatches.

3.3.2 Liquidity risk management process

The Group implements centralised management of liquidity risk and, on the basis of forecasting liquidity requirements, formulates corresponding liquidity management plans and actively manages the liquidity of the Bank. The specific measures mainly include:

- Pay close attention to changes in the macroeconomic situation, central bank monetary policy, capital market dynamics, etc.

- Enhance weighting of core deposits as a percentage of liabilities, so as to improve the stability of liabilities;

- Monitor and manage liquidity position bank-wide by implementing a series of indicators and restrictions;

- Liquidity position management and cash utilisation functions are centralised by the Head offices;

- Maintain an appropriate level of central bank reserves, overnight inter-bank transactions, highly liquid debt investment, actively involve in capital management through open market, monetary market and bond market in order to ensure optimal financing capability at market places;

- Minimise liquidity risk by proper management of asset maturity structures and multi-level liquidity portfolios.

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk *(Continued)*

3.3.3 Non-derivative financial instruments cash flows

The table below presents the structural analysis by contracted maturities on non-derivative financial assets and liabilities of the Group at the balance sheet date. The amount of financial assets and liabilities for each period is the amount of undiscounted cash flows The Group's expected cash flows on these financial instruments may vary significantly from the following analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance although they have been classified as repayable on demand in the following tables.

	Overdue	Undated	On Demand	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
As at 31 December 2019									
Liabilities									
Due to and placements from banks and other financial institutions	–	–	(409,571)	(312,459)	(279,062)	(861,415)	(41,653)	(24,479)	(1,928,639)
Non-derivative financial liabilities at FVPL	–	–	(1,087)	(4,129)	(6,110)	(7,644)	(8,370)	–	(27,340)
Due to customers	–	–	(2,608,940)	(620,749)	(687,767)	(1,032,419)	(1,184,740)	(26,470)	(6,161,085)
Certificates of deposit issued	–	–	–	(47,583)	(112,660)	(326,884)	(19,723)	(104)	(506,954)
Debt securities issued	–	–	–	(356)	(11,595)	(83,202)	(246,898)	(124,044)	(466,095)
Other financial liabilities	–	–	(62,915)	(157)	(980)	(994)	(9,289)	(31,022)	(105,357)
Total liabilities (contractual maturity dates)	–	–	(3,082,513)	(985,433)	(1,098,174)	(2,312,558)	(1,510,673)	(206,119)	(9,195,470)
Assets									
Cash and balances with central banks	–	669,268	90,626	–	291	–	–	–	760,185
Due from and placements with banks and other financial institutions	–	–	68,990	150,526	96,100	271,267	60,169	13,316	660,368
Financial investments at FVPL	–	221,829	7,455	5,633	17,275	53,313	68,842	53,129	427,476
Loans and advances to customers	41,983	–	–	662,690	350,205	1,349,166	1,675,654	3,135,246	7,214,944
Financial investments at FVOCI	–	8,945	–	11,356	37,795	124,191	422,104	127,664	732,055
Financial investments at amortised cost	740	–	–	22,301	39,748	303,842	1,206,797	628,632	2,202,060
Other financial assets	4,524	–	45,990	–	–	–	–	–	50,514
Assets held for managing liquidity risk (contractual maturity dates)	47,247	900,042	213,061	852,506	541,414	2,101,779	3,433,566	3,957,987	12,047,602
Net position	47,247	900,042	(2,869,452)	(132,927)	(556,760)	(210,779)	1,922,893	3,751,868	2,852,132

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk *(Continued)*

3.3.3 Non-derivative financial instruments cash flows (Continued)

	Overdue	Undated	On Demand	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
As at 31 December 2018									
Liabilities									
Due to and placements from banks and other financial institutions	–	–	(438,924)	(356,970)	(333,168)	(985,845)	(50,277)	(32,319)	(2,197,503)
Non-derivative financial liabilities at FVPL	–	–	(865)	(2,980)	(5,857)	(6,265)	(7,726)	–	(23,693)
Due to customers	–	–	(2,443,124)	(555,345)	(399,059)	(1,659,473)	(704,621)	(80,025)	(5,841,647)
Certificates of deposit issued	–	–	–	(41,447)	(106,436)	(209,534)	(15,446)	–	(372,863)
Debt securities issued	–	–	–	(3,665)	(3,474)	(39,527)	(199,677)	(129,224)	(375,567)
Other financial liabilities	–	–	(52,322)	(247)	(237)	(903)	(6,096)	(26,029)	(85,834)
Total liabilities (contractual maturity dates)	–	–	(2,935,235)	(960,654)	(848,231)	(2,901,547)	(983,843)	(267,597)	(8,897,107)
Assets									
Cash and balances with central banks	–	713,376	126,424	–	371	–	–	–	840,171
Due from and placements with banks and other financial institutions	–	–	93,517	335,541	68,165	208,480	145,585	5,471	856,759
Financial investments at FVPL	458	194,838	8,232	7,416	10,235	51,034	72,536	54,336	399,085
Loans and advances to customers	36,953	–	–	680,810	287,572	1,307,557	1,520,092	2,574,873	6,407,857
Financial investments at FVOCI	–	7,388	–	12,314	28,455	114,936	252,017	63,611	478,721
Financial investments at amortised cost	600	–	–	39,005	55,896	266,384	1,375,516	557,879	2,295,280
Other financial assets	781	–	34,679	–	–	–	–	–	35,460
Assets held for managing liquidity risk (contractual maturity dates)	38,792	915,602	262,852	1,075,086	450,694	1,948,391	3,365,746	3,256,170	11,313,333
Net position	38,792	915,602	(2,672,383)	114,432	(397,537)	(953,156)	2,381,903	2,988,573	2,416,226

Assets available to repay all of the liabilities and fulfill loan commitments include cash, balances with central banks, due from and placements with banks and other financial institutions, financial investment at fair value through profit or loss, etc. In the normal course of business, a majority of matured deposits will not be withdrew immediately on the maturity date but will continue to be kept by the Group, a proportion of loans and advances to customers contractually repayable within one year will be extended, and certain debt securities have been pledged for liabilities. In addition, financial investments at fair value through other comprehensive income can also be disposed of when necessary to obtain funds for repayment of matured debts. In stressful scenario, the Group would also be able to meet unexpected cash outflows by selling financial investments, using credit commitment provided by other financial institutions, etc.

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk *(Continued)*

3.3.4 *Derivative financial instruments cash flows*

The Group's derivative financial instruments are either settled on a net basis or a gross basis.

(a) Derivative settled on a net basis

The Group's derivative financial instruments that will be settled on a net basis include foreign exchange contracts, commodity contracts, interest rate contracts and others.

The table below analyses the undiscounted cash flows of the Group's derivative financial instruments which will be settled on a net basis and are classified based on the remaining contractual period from the balance sheet date to maturity date.

	Up to 1 month	1-3 months	3–12 months	1–5 years	Over 5 years	Total
As at 31 December 2019						
Assets						
Derivative financial instruments						
– Foreign exchange and commodity contracts	–	–	–	–	–	–
– Interest rate contracts and others	163	315	1,148	2,547	208	4,381
Total	163	315	1,148	2,547	208	4,381
Liabilities						
Derivative financial instruments						
– Foreign exchange and commodity contracts	(203)	(728)	(1,545)	–	–	(2,476)
– Interest rate contracts and others	(178)	(396)	(1,387)	(3,720)	(526)	(6,207)
Total	(381)	(1,124)	(2,932)	(3,720)	(526)	(8,683)

	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
As at 31 December 2018						
Assets						
Derivative financial instruments						
– Foreign exchange and commodity contracts	6	–	–	–	–	6
– Interest rate contracts and others	99	257	1,016	2,316	180	3,868
Total	105	257	1,016	2,316	180	3,874
Liabilities						
Derivative financial instruments						
– Foreign exchange and commodity contracts	(145)	(220)	(389)	–	–	(754)
– Interest rate contracts and others	(64)	(200)	(760)	(1,836)	(104)	(2,964)
Total	(209)	(420)	(1,149)	(1,836)	(104)	(3,718)

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk *(Continued)*

3.3.4 *Derivative financial instruments cash flows* *(Continued)*

(b) Derivative settled on a gross basis

The Group's derivative financial instruments that will be settled on a gross basis mainly include currency and commodity derivatives. The table below analyses the undiscounted cash flows of the Group's derivative financial instruments which will be settled on a gross basis and are classified based on the remaining contractual period from the balance sheet date to maturity date.

	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
As at 31 December 2019						
Derivative financial instruments settled on a gross basis						
– Outflow	**(652,146)**	**(611,954)**	**(1,031,667)**	**(96,867)**	**(1,451)**	**(2,394,085)**
– Inflow	**652,036**	**610,048**	**1,028,315**	**96,800**	**3,443**	**2,390,642**
Total	**(110)**	**(1,906)**	**(3,352)**	**(67)**	**1,992**	**(3,443)**

	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
As at 31 December 2018						
Derivative financial instruments settled on a gross basis						
– Outflow	(745,533)	(542,190)	(1,458,561)	(41,111)	(1,241)	(2,788,636)
– Inflow	746,029	542,837	1,458,647	41,052	2,870	2,791,435
Total	496	647	86	(59)	1,629	2,799

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk *(Continued)*

3.3.5 Maturity analysis

The table below analyses the Group's assets and liabilities into relevant maturity groupings based on the remaining period at the end of reporting date to the contractual maturity date.

	On demand	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Overdue	Undated	Total
As at 31 December 2019									
Assets									
Cash and balances with central banks	90,626	–	291	–	–	–	–	669,268	760,185
Due from and placements with banks and other financial institutions	68,990	149,937	95,479	265,628	57,812	10,642	–	–	648,488
Derivative financial assets	–	3,350	4,941	7,339	3,971	1,336	–	–	20,937
Financial investments at FVPL	7,455	5,468	16,748	50,326	58,460	47,292	–	220,749	406,498
Loans and advances to customers	–	645,176	316,350	1,217,899	1,168,046	1,802,390	33,792	–	5,183,653
Financial investments at FVOCI	–	11,231	36,586	112,932	386,254	113,708	–	8,945	669,656
Financial investments at amortised cost	–	21,690	36,753	267,765	1,040,314	562,427	740	–	1,929,689
Other assets	65,540	5	15	7,807	20,326	3,802	696	188,303	286,494
Total assets	232,611	836,857	507,163	1,929,696	2,735,183	2,541,597	35,228	1,087,265	9,905,600
Liabilities									
Due to and placements from banks and other financial institutions	(409,571)	(312,213)	(276,142)	(846,554)	(39,762)	(19,840)	–	–	(1,904,082)
Financial liabilities at FVPL	(1,087)	(4,103)	(6,026)	(7,453)	(8,311)	–	–	–	(26,980)
Derivative financial liabilities	–	(3,494)	(5,876)	(10,477)	(5,121)	(1,456)	–	–	(26,424)
Due to customers	(2,608,492)	(616,996)	(680,301)	(1,018,114)	(1,122,574)	(26,431)	–	–	(6,072,908)
Other liabilities	(60,594)	(50,219)	(145,757)	(398,664)	(277,546)	(141,514)	–	–	(1,074,294)
Total liabilities	(3,079,744)	(987,025)	(1,114,102)	(2,281,262)	(1,453,314)	(189,241)	–	–	(9,104,688)
Net amount on liquidity gap	(2,847,133)	(150,168)	(606,939)	(351,566)	1,281,869	2,352,356	35,228	1,087,265	800,912

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk *(Continued)*

3.3.5 *Maturity analysis* *(Continued)*

	On demand	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Overdue	Undated	Total
As at 31 December 2018									
Assets									
Cash and balances with central banks	126,424	–	371	–	–	–	–	713,376	840,171
Due from and placements with banks and other financial institutions	93,420	330,936	67,073	207,595	143,572	5,471	–	–	848,067
Derivative financial assets	–	5,601	6,887	13,831	2,859	1,552	–	–	30,730
Financial investments at FVPL	8,232	7,253	9,786	47,586	58,183	50,050	458	194,838	376,386
Loans and advances to customers	–	664,962	257,043	1,191,035	1,088,301	1,514,178	26,853	–	4,742,372
Financial investments at FVOCI	–	13,348	27,707	106,691	232,364	57,520	–	7,388	445,018
Financial investments at amortised cost	–	38,084	52,330	227,158	1,187,867	494,466	600	–	2,000,505
Other assets	54,240	–	165	499	21,311	1,309	781	169,617	247,922
Total assets	282,316	1,060,184	421,362	1,794,395	2,734,457	2,124,546	28,692	1,085,219	9,531,171
Liabilities									
Due to and placements from banks and other financial institutions	(438,924)	(354,689)	(329,637)	(966,127)	(46,308)	(26,608)	–	–	(2,162,293)
Financial liabilities at FVPL	(865)	(2,968)	(5,801)	(5,978)	(7,497)	–	–	–	(23,109)
Derivative financial liabilities	–	(5,036)	(6,199)	(14,435)	(2,199)	(236)	–	–	(28,105)
Due to customers	(2,442,774)	(554,332)	(397,452)	(1,649,194)	(674,006)	(75,566)	–	–	(5,793,324)
Other liabilities	(50,084)	(53,268)	(118,200)	(238,444)	(214,200)	(144,836)	–	–	(819,032)
Total liabilities	(2,932,647)	(970,293)	(857,289)	(2,874,178)	(944,210)	(247,246)	–	–	(8,825,863)
Net amount on liquidity gap	(2,650,331)	89,891	(435,927)	(1,079,783)	1,790,247	1,877,300	28,692	1,085,219	705,308

3.3.6 *Off-balance sheet items*

The off-balance sheet items of the Group primarily comprise loan commitments, credit card commitments, letter of credit commitments, guarantee and letters of guarantee issued, acceptance notes, etc. The table below lists the liquidity analysis of the off-balance sheet items of the Group, and financial guarantees are included at notional amounts and based on the earliest contractual maturity date.

	Up to 1 year	1–5 years	Over 5 years	Total
As at 31 December 2019				
Loan commitments and other credit related commitments	**761,484**	**22,389**	**8,030**	**791,903**
Guarantees, acceptances and letters of credit	**570,426**	**104,593**	**5,248**	**680,267**
Total	**1,331,910**	**126,982**	**13,278**	**1,472,170**
As at 31 December 2018				
Loan commitments and other credit related commitments	787,886	21,417	9,131	818,434
Guarantees, acceptances and letters of credit	527,162	106,736	3,886	637,784
Total	1,315,048	128,153	13,017	1,456,218

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.4 Fair value of financial assets and liabilities

(a) Determination of fair value and valuation techniques

Certain financial assets and liabilities of the Group are measured at fair value or with fair value disclosed for financial reporting purposes. The fair value has been determined using appropriate valuation techniques and inputs for fair value measurements. The appropriateness of the valuation techniques and the inputs to the fair value measurements are reviewed by the Board of Directors periodically.

Fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

(1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

(2) Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

(3) Level 3 inputs are unobservable inputs for the asset or liability.

The fair value of financial instruments with unadjusted quoted prices for identical instruments in active markets is determined by the open market quotations. These instruments are classified as level 1.

The Group uses valuation techniques to determine the fair value of financial instruments when an open market quotation in active markets is not obtainable.

If the key parameters used in valuation techniques for financial instruments (including debt securities and derivatives) are substantially observable and obtainable from active open market, the instruments are classified as level 2. The second hierarchy of financial instruments held by the Group includes over-the-counter derivatives, certificates of deposit without quotations from active market, loans and advances to customers carried at FVOCI, precious metals, debt securities issued and debt instruments trading in inter-bank market. The fair value of RMB denominated bonds is mainly valued based on the yield curves of the bonds from China Central Depository & Clearing Co., Ltd., while the fair value of the foreign currency denominated bonds is determined based on the valuation results published by Bloomberg. The fair value of foreign currency forwards, swaps and interest rate swaps, currency options is estimated by the discounted cash flow method and Black-Scholes model; the fair value of precious metal contract is mainly determined in accordance with the closing prices of the Shanghai Gold Exchange or the settlement prices of the Shanghai Futures Exchange. The main parameters used in discounted cash flow model include recent market prices, the relevant yield curve, exchange rates and counterparty's credit spreads; main parameters used in Black-Scholes model include the relevant yield curve, exchange rate, level of volatilities and counterparty's credit spreads, etc. All parameters used in valuation techniques are substantially observable and obtainable from active open market.

For loans and advances to customers at fair value, loans and advances to customers at fair value through other comprehensive income, trust and asset management plan, the fair value is determined based on discounted cash flow model using unobservable discount rates that reflect credit risk and liquidity. These financial instruments are classified as Level 3.

For convertible bonds, unlisted equities, unlisted debts, unlisted funds and equity derivatives held by the Group, the fair value of these financial instruments are determined with reference to certain unobservable inputs, and therefore the instruments have been classified by the Group as level 3. Management determines the fair value of these financial instruments using a variety of techniques, including using valuation models that incorporate and take into account unobservable inputs such as Discount for Lack of Marketability (DLOM). The Group has established internal control procedures to monitor the Group's exposure to such financial instruments.

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.4 Fair value of financial assets and liabilities *(Continued)*

(b) Financial instruments not measured at fair value

The table below summarises the carrying amount and fair value of those financial assets and liabilities that are not presented at fair value as at the date of statement of financial position. Financial assets and liabilities with carrying amount approximate to fair value, such as cash and balances with central banks, due from and placements with banks and other financial institutions, loans and advances to customers, due to and placements from banks and other financial institutions, and due to customers, are not included in the table below.

	As at 31 December 2019		As at 31 December 2018	
	Carrying amount	**Fair value**	Carrying amount	Fair value
Financial assets				
Financial investments at amortised cost	**1,929,689**	**1,954,341**	2,000,505	2,013,818
Financial liabilities				
Debt securities issued	**(383,481)**	**(388,177)**	(301,138)	(304,328)

Fair value hierarchy of financial instruments not measured at fair value

	Level 1	**Level 2**	**Level 3**	**Total**
As at 31 December 2019				
Financial assets				
Financial investments at amortised cost	**7,655**	**1,806,199**	**140,487**	**1,954,341**
Financial liabilities				
Debt securities issued	**–**	**(388,177)**	**–**	**(388,177)**

	Level 1	Level 2	Level 3	Total
As at 31 December 2018				
Financial assets				
Financial investments at amortised cost	14,022	1,793,650	206,146	2,013,818
Financial liabilities				
Debt securities issued	–	(304,328)	–	(304,328)

The carrying amounts and fair values of other financial assets and liabilities (including loans and advances to customers, due to customers, due from and placements with banks and other financial institutions, due to and placements from banks and other financial institutions) are approximately the same, because the interest rates of most of these assets and liabilities are adjusted following the changes in interest rates determined by PBOC, other regulatory bodies or market.

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.4 Fair value of financial assets and liabilities *(Continued)*

(c) Financial assets and financial liabilities measured at fair value on a recurring basis

The financial assets and liabilities measured at fair value on a recurring basis by the three levels are analysed below:

	Level 1	Level 2	Level 3	Total
As at 31 December 2019				
At fair value through profit or loss				
Debt securities				
– Governments and central banks	4,220	3,382	–	7,602
– Public sector entities	–	2,000	–	2,000
– Banks and other financial institutions	8,757	79,922	104	88,783
– Corporate entities	4,625	28,178	3,762	36,565
Fund investments and other asset management products	56	158,698	11,681	170,435
Equity securities and others	2,576	–	47,141	49,717
Precious metal contracts	–	39,532	–	39,532
Placements with banks and other financial institutions	–	11,864	–	11,864
Derivative financial instruments				
– Foreign exchange and commodity contracts	–	15,784	–	15,784
– Interest rate contracts and others	–	4,145	1,008	5,153
	20,234	343,505	63,696	427,435
At fair value through other comprehensive income				
Debt Investments at FVOCI				
– Governments and central banks	57,694	201,265	–	258,959
– Public sector entities	136	1,972	–	2,108
– Banks and other financial institutions	134,110	195,593	–	329,703
– Corporate entities	39,804	29,299	838	69,941
Investments in equity instruments designated at FVOCI	1,895	421	6,629	8,945
Loans and advances to customers designated at FVOCI	–	235,361	53	235,414
	233,639	663,911	7,520	905,070
Total assets	253,873	1,007,416	71,216	1,332,505
Financial liabilities at FVPL				
– Certificates of deposits issued	–	(13,392)	–	(13,392)
– Financial liabilities related to precious metal contracts	–	(12,950)	–	(12,950)
– Notes issued	–	(638)	–	(638)
Derivative financial instruments				
– Foreign exchange and commodity contracts	–	(20,423)	–	(20,423)
– Interest rate contracts and others	–	(6,001)	–	(6,001)
Debt securities issued	–	(20,437)	–	(20,437)
Total liabilities	–	(73,841)	–	(73,841)

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.4 Fair values of financial assets and liabilities *(Continued)*

(c) ***Financial assets and financial liabilities measured at fair value on a recurring basis*** *(Continued)*

	Level 1	Level 2	Level 3	Total
As at 31 December 2018				
At fair value through profit or loss				
Debt securities				
– Governments and central banks	1,925	3,636	–	5,561
– Public sector entities	90	2,498	–	2,588
– Banks and other financial institutions	4,031	86,912	255	91,198
– Corporate entities	696	29,368	3,417	33,481
Fund investments and other asset management products	47	180,884	6,670	187,601
Equity securities and others	1,099	–	9,233	10,332
Precious metal contracts	–	37,232	–	37,232
Placements with banks and other financial institutions	–	8,393	–	8,393
Derivative financial instruments				
– Foreign exchange and commodity contracts	–	26,441	–	26,441
– Interest rate contracts and others	–	3,308	981	4,289
Loans and advances to customers designated at FVPL	–	–	494	494
	7,888	378,672	21,050	407,610
At fair value through other comprehensive income				
Debt Investments at FVOCI				
– Governments and central banks	28,115	38,506	–	66,621
– Public sector entities	124	3,575	–	3,699
– Banks and other financial institutions	152,355	159,984	–	312,339
– Corporate entities	29,900	24,690	381	54,971
Investments in equity instruments designated at FVOCI	2,096	–	5,292	7,388
Loans and advances to customers designated at FVOCI	–	184,159	25	184,184
	212,590	410,914	5,698	629,202
Total assets	220,478	789,586	26,748	1,036,812
Financial liabilities at FVPL				
– Certificates of deposits issued	–	(11,660)	–	(11,660)
– Financial liabilities related to precious metal contracts	–	(11,449)	–	(11,449)
Derivative financial instruments				
– Foreign exchange and commodity contracts	–	(25,640)	–	(25,640)
– Interest rate contracts and others	–	(2,465)	–	(2,465)
Debt securities issued	–	(16,556)	–	(16,556)
Total liabilities	–	(67,770)	–	(67,770)

There was no transfer between level 1 and 2 during the year.

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.4 Fair values of financial assets and liabilities *(Continued)*

(c) Financial assets and financial liabilities measured at fair value on a recurring basis *(Continued)*

Reconciliation of level 3 items

	Financial assets at FVPL	**Financial assets at FVOCI**
Balance at 1 January 2019	**21,050**	**5,698**
Total gains or losses		
– Net gains arising from trading activities	**1,120**	**64**
– Other comprehensive income	**–**	**(429)**
Additions	**53,632**	**3,235**
Disposals and settlement	**(9,891)**	**(941)**
Transfer to other levels	**(2,215)**	**(107)**
Balance at 31 December 2019	**63,696**	**7,520**
Total gains/(losses) for the year ended 31 December 2019		
– Realised gains/(losses)	**974**	**68**
– Unrealised gains/(losses)	**104**	**(435)**

	Financial assets at FVPL	Financial assets at FVOCI
Balance at 1 January 2018	14,107	1,577
Total gains or losses		
– Net gains arising from trading activities	217	32
– Other comprehensive income	–	(314)
Additions	14,079	4,836
Disposals	(7,353)	(433)
Transfer to other levels	–	–
Balance at 31 December 2018	21,050	5,698
Total gains/(losses) for the year ended 31 December 2018		
– Realised gains/(losses)	327	33
– Unrealised gains/(losses)	(110)	(315)

These financial instruments with fair values determined based on unobservable inputs are primarily convertible bonds, unlisted equities, unlisted debts, unlisted funds, part of the trust and asset management plan, equity derivatives and part of loans and advances to customers. The fair value of these financial instruments is determined primarily using discounted cash flow method and market comparison method. These valuation methods involve inputs from various unobservable assumptions such as cash flow, risk-adjusted discount rate, price to book value ration, price to earning ratio and marketability discounts.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.5 Offsetting financial assets and financial liabilities

Certain financial assets and financial liabilities of the Group are subject to enforceable master netting arrangements or similar agreements. The agreement between the Group and the counterparty generally allows for net settlement of the relevant financial assets and financial liabilities when both elect to settle on a net basis. In the absence of such a mutual consent, financial assets and financial liabilities will be settled on a gross basis. However, each party to the master netting arrangements or similar agreements will have the option to settle all such amounts on a net basis in the event of default of the other party. These financial assets and financial liabilities of the Group are not offset in accordance with IFRS.

As at 31 December 2019, the amount of the financial assets and financial liabilities subject to enforceable master netting arrangements or similar agreements is not material to the Group.

3.6 Capital management

The “capital” in capital management is a broader concept than “shareholders’ equity” on the statement of financial position. The Group’s objectives in capital management are:

- To comply with the capital requirements set by the regulators of the markets where the Group operates;
- To ensure the Group’s ability to maintain a stable operation so as to continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

The Group management adopts administrative measures issued by CBIRC, which was developed based on guideline issued by the Based Committee, in monitoring its capital adequacy and the usage of regulatory capital on a quarterly basis.

The Administrative Measures for the Capital of Commercial Banks (Provisional) specified the regulatory requirements for minimum capital, capital conservation buffer, additional capital surcharge for systemically important banks, countercyclical buffer and Pillar II capital as follows:

- Minimum regulatory requirements for Core Tier 1 Capital adequacy ratio, Tier 1 Capital adequacy ratio and Capital adequacy ratio are 5%, 6% and 8%, respectively;
- Capital conservation buffer requires additional 2.5% on Core Tier 1 Capital adequacy ratio;
- Additional capital surcharge for systemically important banks requires additional 1% on Core Tier 1 Capital adequacy ratio;
- Should the regulators require countercyclical buffer under particular circumstances or regulators impose additional Pillar II capital requirements for specific banks, these requirements shall be met within the specified time limits.

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.6 Capital management *(Continued)*

The Group's capital as monitored by its Planning and Finance Department consists of the following:

- Core Tier 1 Capital, including ordinary shares, eligible portion of capital surplus, statutory reserve, statutory general reserve, retained earnings, eligible portion of non-controlling interests and translation reserve on foreign operations;

- Additional Tier 1 Capital, including Additional Tier 1 Capital instruments issued and related premium and eligible portion of non-controlling interests;

- Tier 2 Capital, including Tier 2 Capital instruments issued and related premium, excess loan loss provisions and eligible portion of non-controlling interests.

The Group's deductible items from Core Tier 1 Capital include: Goodwill, other intangible assets (except land use rights), investments in Core Tier 1 Capital of financial institutions with controlling interests but outside the scope of regulatory consolidation.

In April 2014, CBIRC officially approved the implementation of the advanced approach of capital management adopted by the Bank. In this approach, the Bank elected to use elementary internal rating based ("IRB") approach for corporate risk exposure, IRB approach for retail risk exposure, internal models approach for market risk and standardised approach for operational risk exposure which is compliant with regulatory requirements. For risk exposures not covered by the advanced approaches, the corresponding portion shall be calculated by adopting non-advanced approaches. The capital ratios calculated based on Administrative Measures for the Capital of Commercial Banks (Provisional) are as follows:

Item	As at 31 December 2019	As at 31 December 2018
Core Tier 1 Capital adequacy ratio (%)	**11.22**	11.16
Tier 1 Capital adequacy ratio (%)	**12.85**	12.21
Capital adequacy ratio (%)	**14.83**	14.37
Core Tier 1 Capital	**695,084**	640,373
Core Tier 1 Capital deductions	**(5,595)**	(5,566)
Net Core Tier 1 Capital	**689,489**	634,807
Additional Tier 1 Capital	**100,057**	60,025
Net Tier 1 Capital	**789,546**	694,832
Tier 2 Capital	**121,710**	122,717
Net Capital	**911,256**	817,549
Risk-weighted asset	**6,144,459**	5,690,542

(All amounts expressed in millions of RMB unless otherwise stated)

4 NET INTEREST INCOME

	Year ended 31 December	
	2019	2018
Interest income		
Loans and advances to customers	**242,948**	225,422
Financial investments	**88,647**	85,449
Due from and placements with banks and other financial institutions	**24,167**	24,945
Balances with central banks	**11,691**	13,048
	367,453	348,864
Interest expense		
Due to customers	**(139,153)**	(128,589)
Due to and placements from banks and other financial institutions	**(57,650)**	(66,788)
Certificates of deposit issued	**(15,048)**	(11,344)
Debt securities issued	**(11,519)**	(11,235)
	(223,370)	(217,956)
Net interest income	**144,083**	130,908
Including:		
Interest income on impaired financial assets	**1,467**	1,618

5 FEE AND COMMISSION INCOME

	Year ended 31 December	
	2019	2018
Bank cards	**21,050**	20,114
Management services	**14,400**	12,524
Investment banking	**4,337**	4,424
Agency services	**3,098**	2,777
Guarantee and commitment	**2,520**	2,461
Settlement services	**2,024**	2,167
Others	**240**	206
	47,669	44,673

	Year ended 31 December	
	2019	2018
Fee income, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are not held for trading or designated at FVPL	**943**	701
Fee income on trust and other fiduciary activities where the Group holds or invests on behalf of its customers	**3,541**	3,406

(All amounts expressed in millions of RMB unless otherwise stated)

6 FEE AND COMMISSION EXPENSE

	Year ended 31 December	
	2019	2018
Bank card business	**2,884**	2,326
Settlement services	**821**	771
Others	**339**	339
	4,044	3,436

	Year ended 31 December	
	2019	2018
Fee expense, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are not held for trading or designated at FVPL	**7**	5

7 NET GAINS ARISING FROM TRADING ACTIVITIES

	Year ended 31 December	
	2019	2018
Financial instruments at FVPL	**13,415**	12,606
Foreign exchange	**2,629**	3,636
Interest rate instruments and others	**(108)**	857
	15,936	17,099

Net gains or losses on foreign exchange include trading gains or losses and fair value changes of spot and forward contracts, currency swaps, cross currency interest rate swaps, currency options and the translation of foreign currency monetary assets and liabilities into RMB.

Net gains or losses on interest rate instruments and others include trading gains or losses and fair value changes of interest rate swaps, interest rate options, commodity and other derivatives.

Net gains arising from trading activities for the year ended 31 December 2019 included a loss of RMB56 million (for the year ended 31 December 2018: an income of RMB26 million) in relation to changes in the fair value of financial liabilities designated at fair value through profit or loss.

8 OTHER OPERATING INCOME

	Year ended 31 December	
	2019	2018
Leasing income	**12,821**	10,523
Income from sales of precious metal merchandise	**1,370**	2,351
Revaluation of investment properties	**31**	117
Net gain on the disposal of fixed and foreclosed assets	**287**	15
Other miscellaneous income	**2,290**	2,807
	16,799	15,813

Other miscellaneous income mainly includes income arising from miscellaneous banking services provided to the Group's customers.

(All amounts expressed in millions of RMB unless otherwise stated)

9 CREDIT IMPAIRMENT LOSSES

Credit impairment losses:

	Year ended 31 December	
	2019	2018
Due from and placements with banks and other financial institutions	**(731)**	(43)
Loans and advances to customers at amortised cost	**49,427**	42,813
Loans and advances to customers at FVOCI	**(346)**	(317)
Off-balance sheet businesses	**1,434**	(1,142)
Financial investments at amortised cost	**(120)**	(362)
Debt investments at FVOCI	**(160)**	265
Other receivables	**1,610**	1,075
Accrued interest of loans and advances to customers at amortised cost	**322**	1,127
Others	**518**	38
	51,954	43,454

10 OTHER ASSETS IMPAIRMENT LOSSES

	Year ended 31 December	
	2019	2018
Impairment losses on property and equipment	**233**	33
Impairment losses on foreclosed assets	**37**	27
	270	60

11 OTHER OPERATING EXPENSES

	Year ended 31 December	
	2019	2018
Staff costs and benefits (Note 12)	**32,927**	29,995
General operating and administrative expenses	**25,528**	28,368
Depreciation and amortisation	**8,105**	5,677
Costs of operating lease business	**8,934**	6,414
Tax and surcharges	**2,697**	2,501
Provision for outstanding litigations	**50**	549
Others	**2,760**	3,248
	81,001	76,752

Since the presentation of "Other operating expenses" has been changed, we have restated the comparative information of the year before.

12 STAFF COSTS AND BENEFITS

	Year ended 31 December	
	2019	2018
Salaries, bonuses, allowances and subsidies	**21,933**	21,075
Post-employment benefit (a)	**4,208**	3,380
Other social security and benefit costs	**6,786**	5,540
	32,927	29,995

(All amounts expressed in millions of RMB unless otherwise stated)

12 STAFF COSTS AND BENEFITS *(Continued)*

(a) Post-employment benefit

Defined contribution plans

The Group participates in various defined contribution retirement benefit plans organised by municipal and provincial governments in Mainland China under which it is required to make monthly contributions to these plans at rates ranging from 10% to 27% of the employees' basic salary for the year. The Group's contributions to these pension plans are charged to profit or loss and other comprehensive income in the year to which they relate.

Employees who retire after 1 January 2009 can voluntarily participate in an Annuity Plan. The Bank contributes to the Annuity Plan based on certain percentage of the employees' gross salary which is recognised in profit or loss as incurred.

The amount recognised in profit or loss is as follows:

	Year ended 31 December	
	2019	2018
Expenses incurred for retirement benefit plans and unemployment insurance	**2,331**	2,532
Expenses incurred for annuity plan	**1,855**	820
Total	**4,186**	3,352

The amount payable at the end of the year is as follows:

	As at 31 December 2019	As at 31 December 2018
Expenses incurred for retirement benefit plans and unemployment insurance	**65**	64
Expenses incurred for annuity plan	**966**	14
Total	**1,031**	78

Defined benefit plans

The Group pays supplementary retirement benefits to employees in Mainland China, who retired before 31 December 2008. The Group's obligations in respect of supplementary retirement benefits are calculated by estimating the amount of future benefits that the Group is committed to pay to the employees after their retirement using actuarial techniques. Such benefits, which are estimated by using key parameters such as inflation rate and mortality ratio, are discounted to their present values. The discount rate is the yield on government bonds at the end of reporting date, the maturity dates of which approximate to the terms of the Group's obligations. Actuarial gains or losses and changes in actuarial assumptions are recognised in other comprehensive income, and amendments to pension plan are recognised in profit or loss in the period of a plan amendment. The amounts recognised in the statement of financial position represent the present value of unfunded obligations.

The Group's retirement benefit obligations in locations other than Mainland China are immaterial and are made in accordance with the relevant local policies and regulations.

	As at 31 December 2019	As at 31 December 2018
Statement of financial position		
– Obligations for pension benefits	**399**	408

(All amounts expressed in millions of RMB unless otherwise stated)

12 STAFF COSTS AND BENEFITS *(Continued)*

(a) Post-employment benefit *(Continued)*

Defined benefit plans *(Continued)*
Amounts recognised in comprehensive income in respect of the supplementary retirement benefits are as follows:

	Year ended 31 December	
	2019	2018
Components of defined benefit costs recognised in profit or loss	**22**	28
Components of defined benefit costs recognised in other comprehensive income	**20**	25
Total	**42**	53

Past service cost and interest expense are recognised in other operating expense in the income statement.

Movements in the unfunded obligations over the year are as follows:

	Year ended 31 December	
	2019	2018
Present value of unfunded obligations at the beginning of the year	**408**	395
Retirement benefits paid during the year	**(51)**	(40)
Interest expense	**20**	25
Past service cost	**2**	3
Net actuarial losses recognised in the current year	**20**	25
Present value of unfunded obligations at the end of the year	**399**	408

The average duration of the supplementary retirement benefits plan at 31 December 2019 is 10.21 years (31 December 2018: 10.95 years).

The Group expects to make a contribution of RMB40 million (2018: RMB41 million) to the defined benefit plan during the next financial year.

The supplementary retirement benefits plan exposes the Group to actuarial risks such as interest risk, longevity risk and inflation risk. A decrease in the government bond yield will increase the present value of unfunded obligations. The present value of unfunded obligations is calculated by reference to the best estimate of the mortality of plan participants. An increase in the life expectancy of the plan participants will increase the plan's liability. The present value of unfunded obligations is also measured by future payment standards, which are determined by inflation rate. Hence, an increase in inflation rate will increase the present value of the unfunded obligations.

The principal actuarial assumptions regarding interest risk and inflation risk used by the Group are discount rate and inflation rate, which were 3.22% (31 December 2018: 3.47%) and 2.68% (31 December 2018: 2.12%) respectively as at 31 December 2019. In the meantime, assumptions regarding future mortality rate are set based on published statistics by China Insurance Regulatory Commission. As at 31 December 2019, an average longevity of a pensioner after retirement at age 60 for male is 19.70 years (31 December 2018: 19.70 years) while a pensioner after retirement at age 55 for female is 28.70 years (31 December 2018: 28.70 years).

12 STAFF COSTS AND BENEFITS *(Continued)*

(a) Post-employment benefit *(Continued)*

Defined benefit plan *(Continued)*

Significant actuarial assumptions for the determination of the unfunded obligation are discount rate, inflation rate and mortality. The sensitivity analysis below is based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

(1) If the discount rate is 100 basis points higher (lower), the defined benefit obligation would decrease by RMB23 million (increase by RMB26 million).

(2) If the expected inflation rate increases (decreases) by 1%, the defined benefit obligation would increase by RMB26 million (decrease by RMB23 million).

(3) If the life expectancy increases (decreases) by one year for men and women, the defined benefit obligation would increase by RMB32 million (decrease by RMB32 million).

The sensitivity analysis above may not be representative of the actual change in the unfunded obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

In presenting the above sensitivity analysis, the present value of the unfunded obligation has been calculated at the end of the reporting period, which is the same as that applied in calculating the unfunded obligation liability recognised in the statement of financial position.

There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior years.

13 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(a) Directors', supervisors' and senior management's emoluments before taxation

(in thousands of RMB)	Year ended 31 December 2019			
Name	**Emoluments**	**Remuneration**	**Other benefits**	**Total**
Executive directors				
Mr. Ren, Deqi	–	579	200	779
Mr. Hou, Weidong	–	521	183	704
Non-executive directors				
Mr. Wang, Taiyin	–	672	178	850
Mr. Song, Guobin	–	672	191	863
Mr. He, Zhaobin	–	672	191	863
Mr. Chan Siu Chung	–	–	–	–
Mr. Song, Hongjun	–	–	–	–
Mr. Chen, Junkui	–	–	–	–
Mr. Liu, Haoyang	–	–	–	–
Ms. Li, Jian	292	–	–	292
Mr. Liu, Li	292	–	–	292
Mr. Jason Yeung Chi Wai	282	–	–	282
Mr. Raymond Woo Chin Wan	282	–	–	282
Mr. Cai, Haoyi	–	–	–	–
Mr. Shi, Lei	6	–	–	6
Supervisors				
Mr. Zhang, Minsheng	–	–	–	–
Mr. Wang, Xueqing	–	–	–	–
Ms. Tang, Xinyu	–	–	–	–
Ms. Xia, Zhihua	–	–	–	–
Mr. Li, Yao	–	232	–	232
Mr. Chen, Hanwen	–	137	–	137
Ms. Chen, Qing	–	853	169	1,022
Mr. Du, Yarong	–	841	169	1,010
Mr. Guan, Xingshe	–	800	169	969
Mr. Wang, Xuewu	–	408	86	494
Total	1,154	6,387	1,536	9,077
Directors and supervisors that resigned in 2019				
Mr. Peng, Chun	–	145	45	190
Mr. Peter Wong Tung Shun	–	–	–	–
Mr. Wu, Wei	–	304	105	409
Ms. Helen Wong Pik Kuen	–	–	–	–
Mr. Liu, Hanxing	–	–	–	–
Mr. Luo, Mingde	–	–	–	–
Mr. Yu,Yongshun	–	–	–	–
Mr. Song, Shuguang	–	48	17	65
Mr. Gu, Huizhong	–	–	–	–
Mr. Zhao, Yuguo	–	–	–	–
Mr. Liu, Mingxing	–	–	–	–
Ms. Zhang, Lili	–	–	–	–
Mr. Fen, Xiaodong	–	–	–	–
Mr. Xu, Ming	–	417	83	500
Total	–	914	250	1,164

13 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(Continued)*

(a) Directors', supervisors' and senior management's emoluments before taxation *(Continued)*

(in thousands of RMB)	Year ended 31 December 2018			
Name	Emoluments	Remuneration	Other benefits	Total
Executive directors				
Mr. Peng, Chun	–	712	179	891
Mr. Ren, Deqi	–	356	103	459
Mr. Hou, Weidong	–	641	174	815
Non-executive directors				
Mr. Wang, Dongsheng	–	–	–	–
Mr. Wang, Taiyin	–	1,563	170	1,733
Mr. Song, Guobin	–	1,563	210	1,773
Mr. He, Zhaobin	–	1,563	210	1,773
Ms. Huang, Bijuan	–	–	–	–
Mr. Liu, Hanxing	–	–	–	–
Mr. Luo, Mingde	–	–	–	–
Mr. Liu, Haoyang	–	–	–	–
Mr. Yu, Yongshun	–	–	–	–
Ms. Li, Jian	250	–	–	250
Mr. Liu, Li	250	–	–	250
Mr. Yang, Zhiwei	250	–	–	250
Mr. Hu, Zhanyun	250	–	–	250
Mr. Cai, Haoyi	–	–	–	–
Supervisors				
Mr. Gu, Huizhong	–	–	–	–
Mr. Zhao, Yuguo	–	–	–	–
Mr. Liu, Mingxing	–	–	–	–
Ms. Zhang, Lili	–	–	–	–
Mr. Wang, Xueqing	–	–	–	–
Ms. Tang, Xinyu	–	–	–	–
Ms. Xia, Zhihua	–	–	–	–
Mr. Li, Yao	–	200	–	200
Ms. Chen, Qing	–	853	161	1,014
Mr. Du, Yarong	–	840	161	1,001
Mr. Xu, Ming	–	833	161	994
Mr. Guan, Xingshe	–	133	28	161
Total	1,000	9,257	1,557	11,814
Directors and supervisors that resigned in 2018				
Mr. Niu, Ximing	–	331	195	526
Ms. Yu, Yali	–	427	114	541
Mr. Shen, Rujun	–	534	158	692
Mr. Song, Shuguang	–	712	195	907
Mr. Fan, Jun	–	484	91	575
Mr. Chen, Zhiwu	146	–	–	146
Total	146	2,488	753	3,387

(All amounts expressed in millions of RMB unless otherwise stated)

13 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(Continued)*

(a) Directors', supervisors' and senior management's emoluments before taxation *(Continued)*

(1) The total compensation package for directors and supervisors for the year ended 31 December 2019 has not yet been finalised in accordance with regulations of the PRC relevant authorities. The amount of the compensation not provided for is not expected to have significant impact to the Group's 2019 financial statements. The final compensation will be disclosed in a separate announcement when determined. The total final compensation for the year ended 31 December 2018 was disclosed in Information on the First Interim General Meeting of Stockholders in 2020 issued on 11 March 2020.

(2) Staff supervisors Ms. Chen, Qing, Mr. Du, Yarong, Mr. Wang, Xuewu and Mr. Guan, Xingshe received compensation according to their staff position of the Bank and did not received additional compensation for being staff supervisors.

(3) During 2019 and 2018, there was no arrangement under which a director or a supervisor waived or agreed to waive any remuneration.

(4) Other benefits include social insurance, housing fund, enterprise annuity paid by the Bank.

(b) Five highest paid individuals

The five highest paid individuals in the Group for the related years are as follows:

	Year ended 31 December	
	2019	2018
Salary	**14**	14
Discretionary bonuses	**14**	14
Employer's contribution to pension scheme and other benefits	**2**	2
Total	**30**	30

Emoluments of the above five highest paid individuals in the Group are within the following bands:

	Number of employees As at 31 December	
	2019	2018
HKD4,000,001 – 4,500,000	**–**	–
HKD4,500,001 – 5,000,000	**3**	2
HKD5,000,001 – 5,500,000	**1**	2
HKD5,500,001 – 6,000,000	**–**	–
HKD6,000,001 – 6,500,000	**–**	–
HKD6,500,001 – 7,000,000	**–**	–
HKD7,000,001 – 7,500,000	**–**	–
HKD7,500,001 – 8,000,000	**–**	–
HKD8,000,001 – 8,500,000	**–**	–
HKD8,500,001 – 9,000,000	**–**	–
HKD9,000,001 – 9,500,000	**–**	–
HKD9,500,001 – 10,000,000	**–**	1
HKD10,000,001 – 10,500,000	**1**	–
	5	5

During 2019 and 2018, no emolument was paid by the Group to any of the directors, supervisors and the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

14 INCOME TAX

	Year ended 31 December	
	2019	2018
Current income tax		
– Mainland China enterprise income tax	**11,789**	6,838
– Hong Kong profits tax	**1,059**	1,058
– Income tax arising in Macao, Taiwan and other countries or regions	**680**	593
	13,528	8,489
Deferred income tax (Note 25)	**(3,390)**	3,413
	10,138	11,902

The provision for enterprise income tax in Mainland China is calculated based on the statutory rate of 25% (2018: 25%) of the assessable income of the Bank and each of the subsidiaries established in Mainland China. Taxation arising in other jurisdictions (including Hong Kong) is calculated at the rates prevailing in the relevant jurisdictions, the shortfall arising from the differential in tax rates of overseas branches as compared with the Mainland China tax rate shall be reported and paid by the Mainland China head office.

The taxation on the Group's profit before tax differs from the theoretical amount that would arise using the tax rate of the home country of the Group at 25% (2018: 25%). The major reconciliation items are as follows:

	Year ended 31 December	
	2019	2018
Profit before tax	**88,200**	86,067
Tax calculated at a tax rate of 25%	**22,050**	21,517
Effect of different tax rates in Hong Kong, Macao and Taiwan and other countries (or regions)	**(206)**	(33)
Tax effect of expense not deductible for tax purposes	**3,094**	3,589
Tax effect arising from income not subject to tax (1)	**(15,231)**	(12,395)
Income tax adjustment for prior years	**431**	(776)
Income tax expense	**10,138**	11,902

(1) The income not subject to tax is mainly comprised of fund investment income and interest income generated from PRC treasury bonds and municipal government bonds.

15 BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net profit attributable to shareholders of the Bank by the weighted average number of ordinary shares in issue during the period.

	Year ended 31 December	
	2019	2018
Net profit attributable to shareholders of the Bank	**77,281**	73,630
Less: Net profit attributable to preference shareholders of the Bank	**(2,671)**	(2,618)
Net profit attributable to ordinary shareholders of the Bank	**74,610**	71,012
Weighted average number of ordinary shares in issue (expressed in millions) at the end of the year	**74,263**	74,263
Basic and diluted earnings per share (expressed in RMB per share)	**1.00**	0.96

(All amounts expressed in millions of RMB unless otherwise stated)

15 BASIC AND DILUTED EARNINGS PER SHARE *(Continued)*

The Bank issued non-cumulative preference shares on 29 July 2015 and 2 September 2016 under the terms and conditions as detailed in Note 34.1 Preference Shares. For the purpose of calculating basic earnings per share, a cash dividend of RMB2,671 million on non-cumulative preference shares declared for the period was deducted from the amounts attributable to ordinary shareholders of the Bank. The conversion feature of preference shares is considered to fall within contingently issuable ordinary shares. The triggering events of conversion did not occur for the year ended 31 December 2019, therefore the conversion feature of preference shares has no effect on the basic and diluted earnings per share calculation.

The Bank issued non-cumulative perpetual bonds on 18 September 2019 under the terms and conditions as detailed in Note 34.2 Perpetual Bonds. For the purpose of calculating basic earnings per share, distributions on non-cumulative perpetual bonds declared in respect of the period should be deducted from the amounts attributable to shareholders of the Bank. The Bank has not declared any distributions on perpetual bonds for the year ended 31 December 2019.

16 CASH AND BALANCES WITH CENTRAL BANKS

	As at 31 December 2019	As at 31 December 2018
Cash	**14,481**	14,665
Mandatory reserve deposits	**653,190**	703,649
Excess reserve deposits	**76,145**	111,759
Fiscal deposits and others	**16,078**	9,727
Accrued interest	**291**	371
	760,185	840,171

The Group places mandatory reserves with PBOC and several other central banks of overseas countries and regions. Such mandatory reserves are not available for use by the Group in its day-to-day operations.

The Bank's domestic mandatory deposit reserve rates as at the balance sheet date are as follows:

	As at 31 December 2019	As at 31 December 2018
	%	%
Domestic mandatory reserve rate for deposits denominated in RMB	**12.50**	14.00
Domestic mandatory reserve rate for deposits denominated in foreign currencies	**5.00**	5.00

Reserve rate for deposits denominated in RMB of the Group's subsidiaries in Mainland China is subject to relevant regulations of PBOC.

Mandatory reserve rate for deposits with central banks of overseas countries and regions is subject to regulations of local regulatory bodies.

Excess reserve deposits with central banks are mainly used for capital settlement, financial institution transfer, etc.

(All amounts expressed in millions of RMB unless otherwise stated)

17 DUE FROM AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 31 December 2019	As at 31 December 2018
Due from banks and other financial institutions		
– Banks and other financial institutions operating in Mainland China	**96,489**	104,270
– Banks and other financial institutions operating outside Mainland China	**39,783**	58,697
Accrued interest	**559**	933
Less: Allowance for impairment losses	**(176)**	(254)
Financial assets purchased under resale agreements		
– Securities	**15,217**	116,871
– Bills	**329**	2,846
Accrued interest	**20**	92
Less: Allowance for impairment losses	**(11)**	(166)
Placements with and loans to banks		
– Banks operating in Mainland China	**100,074**	194,008
– Banks operating outside Mainland China	**55,132**	47,437
Placements with and loans to other financial institutions		
– Placements with and loans to other financial institutions in Mainland China	**262,885**	275,020
– Placements with and loans to other financial institutions outside Mainland China	**74,080**	42,898
Accrued interest	**4,979**	6,749
Less: Allowance for impairment losses	**(872)**	(1,334)
	648,488	848,067

As at 31 December 2019, placements and bonds purchased under resale agreements with certain wealth management products that were sponsored and not consolidated by the Group amounted to RMB4,500 million (31 December 2018: RMB96,473 million). These transactions were carried out at market prices and the Group were not contractually obliged to make such arrangements. The maximum exposure to loss of those transactions approximated the carrying amount of the placements and bonds purchased under resale agreements. The average exposure of the above transactions for the year ended 31 December 2019 was RMB47,930 million and the weighted average outstanding period was 2.42 days (The average exposure during 2018 was RMB54,670 million and the weighted average outstanding period was 6.01 days). As at the approval date of these consolidated financial statements, the placements and bonds purchased under resale agreements had been matured and the amounts had been fully repaid.

(All amounts expressed in millions of RMB unless otherwise stated)

18 FINANCIAL INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 31 December 2019	As at 31 December 2018
Government bonds		
– Listed in Hong Kong	2,829	1,746
– Listed outside Hong Kong (a)	3,176	3,036
– Unlisted	1,597	779
Other debt securities		
– Listed in Hong Kong	21,244	13,043
– Listed outside Hong Kong (a)	100,680	109,396
– Unlisted – corporate entities	3,869	3,609
– Unlisted – banks	1,555	1,219
Equity securities and others		
– Listed in Hong Kong	820	1
– Listed outside Hong Kong	1,756	1,099
– Unlisted	47,141	9,232
Fund investments and other asset management products		
– Listed outside Hong Kong	92	–
– Unlisted	170,343	187,601
Precious metal contracts	39,532	37,232
Placements with banks and other financial institutions	11,864	8,393
Total	406,498	376,386

(a) Debt securities traded in the China domestic inter-bank bond market are included in "Listed outside Hong Kong".

Debt securities at fair value through profit or loss are analysed by issuer as follows:

	As at 31 December 2019	As at 31 December 2018
– Banks and other financial institutions	88,783	91,198
– Corporate entities	36,565	33,481
– Governments and central banks	7,602	5,561
– Public sector entities	2,000	2,588
	134,950	132,828

The financial investments at fair value through profit or loss include financial assets held for trading and financial assets that cannot pass the 'SPPI test'.

(All amounts expressed in millions of RMB unless otherwise stated)

19 DERIVATIVE FINANCIAL INSTRUMENTS

The following derivative instruments are utilised by the Group for trading or hedging purposes:

Currency and commodity forwards are contracts between two parties to buy or sell certain currencies or commodities at a specified future date at a predetermined price. The party agreeing to buy the underlying currency or commodities in the future assumes a long position, and the party agreeing to sell the currency or commodities in the future assumes a short position. The price agreed upon is called the delivery price, which is equal to the forward price at the time the contract is entered into.

Currency, commodity and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies, commodities or interest rates (for example, fixed rate for floating rate) or a combination of these (i.e. cross-currency interest rate swaps). The Group's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Group assesses counterparties using the same techniques as for its lending activities.

Currency, commodity and interest rate options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) on or before a set date or during a set period, a specific amount of a currency or commodity at a predetermined price or to receive an interest payment based on a variable interest rate and pay at a fixed interest rate or vice versa. The seller receives a premium from the purchaser in consideration for assuming foreign exchange, interest rate risk or commodity price fluctuations. Options may be either exchange-traded or negotiated between the Group and a customer (over the counter market).

The notional amounts of certain types of financial instruments provide a reference of the amounts 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 price risks. The derivative instruments may become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates, foreign exchange rates or commodity price relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time. The fair values of derivative instruments held are set out in the following tables.

	Contractual/Notional	**Fair values**	
	Amount	**Assets**	**Liabilities**
As at 31 December 2019			
Foreign exchange and commodity contracts	**2,173,598**	**15,784**	**(20,423)**
Interest rate contracts and others	**3,826,987**	**5,153**	**(6,001)**
Total amount of derivative instruments recognised	**6,000,585**	**20,937**	**(26,424)**

	Contractual/Notional	Fair values	
	Amount	Assets	Liabilities
As at 31 December 2018			
Foreign exchange and commodity contracts	2,541,252	26,441	(25,640)
Interest rate contracts and others	831,692	4,289	(2,465)
Total amount of derivative instruments recognised	3,372,944	30,730	(28,105)

The tables above provide a breakdown of the contractual or notional amounts and the fair values of the Group's derivative financial instruments outstanding at year end. These instruments, comprising foreign exchange, interest rate and commodity derivatives allow the Group and its customers to transfer, modify or reduce their foreign exchange, interest rate and commodity price fluctuation risks.

(All amounts expressed in millions of RMB unless otherwise stated)

19 DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

The Group undertakes its transactions in foreign exchange, interest rates and commodity contracts with other financial institutions and customers. Management has established limits for these contracts based on counterpart types, industry sectors and countries. Related risks are regularly monitored and controlled by management.

Notional amounts of derivative financial instruments by original currency:

	As at 31 December 2019	As at 31 December 2018
RMB	**4,442,337**	1,785,452
USD	**1,209,161**	1,384,347
HKD	**204,007**	129,328
Others	**145,080**	73,817
Total	**6,000,585**	3,372,944

Hedge accounting

The above derivative financial instruments include those designated as hedging instruments by the Group as follows:

	Contractual/Notional	**Fair values**	
	Amount	**Assets**	**Liabilities**
As at 31 December 2019			
Derivative financial instruments designated as hedging instruments in fair value hedges	**121,791**	**295**	**(1,794)**
Derivative financial instruments designated as hedging instruments in cash flow hedges	**29,379**	**130**	**(168)**
Total	**151,170**	**425**	**(1,962)**

	Contractual/Notional	Fair values	
	Amount	Assets	Liabilities
As at 31 December 2018			
Derivative financial instruments designated as hedging instruments in fair value hedges	71,133	1,122	(353)
Derivative financial instruments designated as hedging instruments in cash flow hedges	26,935	479	(201)
Total	98,068	1,601	(554)

(All amounts expressed in millions of RMB unless otherwise stated)

19 DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

Hedge accounting *(Continued)*

(a) Fair value hedge

The Group uses interest rate swaps to hedge against changes in fair value arising from changes in interest rates. Some purchased interest rate swap contracts are designated as hedging instruments, whose terms are identical with those of the corresponding hedged items regarding interest rate, maturity and currency. The Group uses regression analysis to evaluate the effectiveness of hedging. With the supporting of testing results, the Group's management considers the hedging relationship to be highly effective. The hedged items include due from and placements with banks and other financial institutions, debt investments at FVOCI, due to and placements from banks and other financial institutions, loans and advances to customers and certificates of deposits issued.

The following table shows the profit or loss effects of the fair value hedges:

	Year ended 31 December	
The Group	**2019**	2018
Net gains/(losses) from fair value hedges:		
Hedging instruments	**(2,504)**	(28)
Hedged items attributable to the hedged risk	**2,250**	(81)
Total	**(254)**	(109)

(b) Cash flow hedge

The Group uses foreign exchange contracts to hedge against exposures to cash flow variability primarily resulting from foreign exchange risks, and uses interest rate swaps to hedge against exposures to cash flow variability primarily resulting from interest rate risks. The hedged items include debt investments at FVOCI, due from and placements with banks and other financial institutions, loans and advances to customers, due to and placements from banks and other financial institutions and certificates of deposits issued. The Group mainly uses regression analysis to evaluate the effectiveness of hedging. With the supporting of testing results, the Group's management considers the hedging relationship to be highly effective.

The Group's loss from the hedging instruments of RMB210 million (31 December 2018: profit of RMB147 million) was recognised in other comprehensive income and the gains or losses arising from the ineffective portion of cash flow hedge was immaterial for the year ended 31 December 2019. There were no transactions for which cash flow hedge accounting had to be ceased, as a result of the highly probable cash flows no longer being expected to occur.

(All amounts expressed in millions of RMB unless otherwise stated)

20 LOANS AND ADVANCES TO CUSTOMERS

20.1 Loans and advances to customers

	As at 31 December 2019	As at 31 December 2018
Loans and advances to customers		
– Carried at amortised cost	**5,068,861**	4,669,550
– Carried at FVOCI	**235,414**	184,184
– Carried at FVPL	**–**	494
Less: Allowance for impairment losses	**(132,719)**	(123,861)
Accrued interest	**14,648**	14,195
Less: Allowance for impairment losses of accrued interest	**(2,551)**	(2,190)
	5,183,653	4,742,372

20.2 Movements of gross carrying amount and ECL allowance

Movements of gross carrying amount – Corporate loan at amortised cost:

	Stage 1	**Stage 2**	**Stage 3**	**Total**
As at 1 January 2019	**2,848,956**	**127,820**	**57,147**	**3,033,923**
Addition, net	**365,201**	**(58,429)**	**(4,964)**	**301,808**
Written-offs and disposals	**–**	**(217)**	**(27,330)**	**(27,547)**
Transfers:	**(105,437)**	**70,823**	**34,614**	**–**
Transfer between Stage 1 and Stage 2, net	***(95,474)***	***95,474***	***–***	***–***
Transfer between Stage 1 and Stage 3, net	***(9,963)***	***–***	***9,963***	***–***
Transfer between Stage 2 and Stage 3, net	***–***	***(24,651)***	***24,651***	***–***
Modification of contractual cash flows of financial assets	**–**	**(413)**	**(82)**	**(495)**
Exchange differences	**6,259**	**117**	**31**	**6,407**
As at 31 December 2019	**3,114,979**	**139,701**	**59,416**	**3,314,096**

	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2018	2,791,561	150,487	62,557	3,004,605
Addition, net	154,030	(87,260)	(5,255)	61,515
Written-offs and disposals	–	(527)	(38,461)	(38,988)
Transfers:	(103,366)	64,901	38,465	–
Transfer between Stage 1 and Stage 2, net	*(88,892)*	*88,892*	–	–
Transfer between Stage 1 and Stage 3, net	*(14,474)*	–	*14,474*	–
Transfer between Stage 2 and Stage 3, net	–	*(23,991)*	*23,991*	–
Modification of contractual cash flows of financial assets	18	148	(212)	(46)
Exchange differences	6,713	71	53	6,837
As at 31 December 2018	2,848,956	127,820	57,147	3,033,923

(All amounts expressed in millions of RMB unless otherwise stated)

20 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

20.2 Movements of gross carrying amount and ECL allowance *(Continued)*

Movements of ECL allowance – Corporate loan at amortised cost:

	Stage 1	**Stage 2**	**Stage 3**	
	12-month ECL	**Lifetime ECL**	**Lifetime ECL**	**Total**
As at 1 January 2019	**23,323**	**42,503**	**36,577**	**102,403**
Addition/(Reversal)	**3,443**	**(3,596)**	**(4,142)**	**(4,295)**
Transfer in/(out)	**(51)**	**189**	**–**	**138**
Written-offs and disposals	**–**	**(217)**	**(27,330)**	**(27,547)**
Transfers:	**844**	**(13,068)**	**12,224**	**–**
Transfer between Stage 1 and Stage 2, net	***1,148***	***(1,148)***	**–**	**–**
Transfer between Stage 1 and Stage 3, net	***(304)***	**–**	***304***	**–**
Transfer between Stage 2 and Stage 3, net	**–**	***(11,920)***	***11,920***	**–**
Remeasurement	**(4,459)**	**14,145**	**24,560**	**34,246**
Recoveries of loans written-off in previous years	**–**	**–**	**1,464**	**1,464**
Unwind of discount	**–**	**–**	**(1,292)**	**(1,292)**
Exchange differences	**25**	**4**	**24**	**53**
As at 31 December 2019	**23,125**	**39,960**	**42,085**	**105,170**

	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
As at 1 January 2018 (Restated)	25,027	50,159	36,406	111,592
Addition/(Reversal)	(2,123)	1,320	30,879	30,076
Written-offs and disposals	–	(527)	(38,461)	(38,988)
Transfers:	381	(8,488)	8,107	–
Transfer between Stage 1 and Stage 2, net	*741*	*(741)*	–	–
Transfer between Stage 1 and Stage 3, net	*(360)*	–	*360*	–
Transfer between Stage 2 and Stage 3, net	–	*(7,747)*	*7,747*	–
Recoveries of loans written-off in previous years	–	–	1,062	1,062
Unwind of discount	–	–	(1,447)	(1,447)
Exchange differences	38	39	31	108
As at 31 December 2018	23,323	42,503	36,577	102,403

(All amounts expressed in millions of RMB unless otherwise stated)

20 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

20.2 Movements of gross carrying amount and ECL allowance *(Continued)*

Movements of gross carrying amount – Individual loan at amortised cost:

	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2019	**1,612,415**	**7,872**	**15,340**	**1,635,627**
Addition, net	**138,887**	**(1,906)**	**(4,226)**	**132,755**
Written-offs and disposals	**–**	**–**	**(14,436)**	**(14,436)**
Transfers:	**(25,008)**	**3,116**	**21,892**	**–**
Transfer between Stage 1 and Stage 2, net	***(7,504)***	***7,504***	***–***	***–***
Transfer between Stage 1 and Stage 3, net	***(17,504)***	***–***	***17,504***	***–***
Transfer between Stage 2 and Stage 3, net	***–***	***(4,388)***	***4,388***	***–***
Exchange differences	**812**	**3**	**4**	**819**
As at 31 December 2019	**1,727,106**	**9,085**	**18,574**	**1,754,765**

	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2018	1,388,170	5,721	15,991	1,409,882
Addition, net	240,290	(1,515)	(2,902)	235,873
Written-offs and disposals	–	–	(11,180)	(11,180)
Transfers:	(17,027)	3,635	13,392	–
Transfer between Stage 1 and Stage 2, net	*(5,541)*	*5,541*	*–*	*–*
Transfer between Stage 1 and Stage 3, net	*(11,486)*	*–*	*11,486*	*–*
Transfer between Stage 2 and Stage 3, net	*–*	*(1,906)*	*1,906*	*–*
Exchange differences	982	31	39	1,052
As at 31 December 2018	1,612,415	7,872	15,340	1,635,627

(All amounts expressed in millions of RMB unless otherwise stated)

20 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

20.2 Movements of gross carrying amount and ECL allowance *(Continued)*

Movements of ECL allowance – Individual Loan at amortised cost:

	Stage 1	**Stage 2**	**Stage 3**	
	12-month ECL	**Lifetime ECL**	**Lifetime ECL**	**Total**
As at 1 January 2019	**7,710**	**2,302**	**11,446**	**21,458**
Addition/(Reversal)	**909**	**(225)**	**(1,219)**	**(535)**
Written-offs and disposals	**–**	**–**	**(14,436)**	**(14,436)**
Transfers:	**380**	**(686)**	**306**	**–**
Transfer between Stage 1 and Stage 2, net	***295***	***(295)***	**–**	**–**
Transfer between Stage 1 and Stage 3, net	***85***	**–**	***(85)***	**–**
Transfer between Stage 2 and Stage 3, net	**–**	***(391)***	***391***	**–**
Remeasurement	**(605)**	**1,800**	**18,816**	**20,011**
Recoveries of loans written-off in previous years	**–**	**–**	**1,224**	**1,224**
Unwind of discount	**–**	**–**	**(175)**	**(175)**
Exchange differences	**–**	**2**	**–**	**2**
As at 31 December 2019	**8,394**	**3,193**	**15,962**	**27,549**

	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
As at 1 January 2018	6,506	1,395	11,626	19,527
Addition	730	1,450	10,557	12,737
Written-offs and disposals	–	–	(11,180)	(11,180)
Transfers:	460	(545)	85	–
Transfer between Stage 1 and Stage 2, net	*272*	*(272)*	–	–
Transfer between Stage 1 and Stage 3, net	*188*	–	*(188)*	–
Transfer between Stage 2 and Stage 3, net	–	*(273)*	*273*	–
Recoveries of loans written-off in previous years	–	–	517	517
Unwind of discount	–	–	(171)	(171)
Exchange differences	14	2	12	28
As at 31 December 2018	7,710	2,302	11,446	21,458

(All amounts expressed in millions of RMB unless otherwise stated)

20 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

20.2 Movements of gross carrying amount and ECL allowance *(Continued)*

Movements of gross carrying amount – Loans and advances to customers at fair value through other comprehensive income

	Stage 1	**Stage 2**	**Stage 3**	**Total**
As at 1 January 2019	**178,874**	**6,731**	**258**	**185,863**
Addition, net	**49,941**	**(193)**	**(310)**	**49,438**
Transfers:	**(102)**	**–**	**102**	**–**
Transfer between Stage 1 and Stage 2, net	***–***	***–***	***–***	***–***
Transfer between Stage 1 and Stage 3, net	***(102)***	***–***	***102***	***–***
Changes in the fair value	**244**	**(134)**	**3**	**113**
As at 31 December 2019	**228,957**	**6,404**	**53**	**235,414**

	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2018	156,612	7,184	209	164,005
Addition, net	28,129	(7,712)	(44)	20,373
Transfers:	(7,029)	6,980	49	–
Transfer between Stage 1 and Stage 2, net	*(6,980)*	*6,980*	*–*	*–*
Transfer between Stage 1 and Stage 3, net	*(49)*	*–*	*49*	*–*
Changes in the fair value	1,162	279	44	1,485
As at 31 December 2018	178,874	6,731	258	185,863

(All amounts expressed in millions of RMB unless otherwise stated)

20 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

20.2 Movements of gross carrying amount and ECL allowance *(Continued)*

Movements of ECL allowance – Loans and advances to customers at fair value through other comprehensive income:

	Stage 1	Stage 2	Stage 3	
	12-month ECL	**Lifetime ECL**	**Lifetime ECL**	**Total**
As at 1 January 2019	**1,163**	**283**	**233**	**1,679**
Addition/(Reversal)	**(321)**	**(78)**	**53**	**(346)**
Transfers:	**(3)**	**–**	**3**	**–**
Transfer between Stage 1 and Stage 2, net	*–*	*–*	*–*	*–*
Transfer between Stage 1 and Stage 3, net	***(3)***	*–*	***3***	*–*
As at 31 December 2019	**839**	**205**	**289**	**1,333**

	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
As at 1 January 2018 (Restated)	1,587	278	131	1,996
Addition/(Reversal)	(138)	(279)	100	(317)
Transfers:	(286)	284	2	–
Transfer between Stage 1 and Stage 2, net	*(284)*	*284*	–	–
Transfer between Stage 1 and Stage 3, net	*(2)*	–	*2*	–
As at 31 December 2018	1,163	283	233	1,679

20.3 Loans and advances to customers analysed by security type

	As at 31 December 2019	As at 31 December 2018
Unsecured loans	**1,844,304**	1,554,652
Guaranteed loans	**943,076**	895,738
Collateralised and other secured loans	**2,516,895**	2,403,838
Including: Loans secured by collateral	***1,926,508***	*1,732,818*
Pledged loans	***590,387***	*671,020*
Total	**5,304,275**	4,854,228

(All amounts expressed in millions of RMB unless otherwise stated)

20 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

20.4 Overdue loans analysed by security type

	As at 31 December 2019				
	Overdue within three months	**Overdue between three months and one year**	**Overdue between one year and three years**	**Overdue over three years**	**Total**
Unsecured loans	**10,622**	**12,014**	**1,009**	**299**	**23,944**
Guaranteed loans	**4,983**	**7,781**	**11,294**	**3,893**	**27,951**
Collateralised and other secured loans	**13,318**	**8,823**	**11,358**	**5,126**	**38,625**
Including: Loans secured by collateral	***11,805***	***7,934***	***9,505***	***4,695***	***33,939***
Pledged loans	***1,513***	***889***	***1,853***	***431***	***4,686***
Total	**28,923**	**28,618**	**23,661**	**9,318**	**90,520**

	As at 31 December 2018				
	Overdue within three months	Overdue between three months and one year	Overdue between one year and three years	Overdue over three years	Total
Unsecured loans	11,133	10,402	400	460	22,395
Guaranteed loans	6,344	10,847	9,561	4,099	30,851
Collateralised and other secured loans	8,366	10,830	11,930	4,792	35,918
Including: Loans secured by collateral	*7,553*	*9,429*	*10,329*	*4,306*	*31,617*
Pledged loans	*813*	*1,401*	*1,601*	*486*	*4,301*
Total	25,843	32,079	21,891	9,351	89,164

(All amounts expressed in millions of RMB unless otherwise stated)

21 FINANCIAL INVESTMENTS

	As at 31 December 2019	As at 31 December 2018
Financial investments at amortised cost		
– Listed in Hong Kong	**7,427**	6,007
– Listed outside Hong Kong	**1,747,791**	1,759,249
– Unlisted	**149,170**	209,518
Accrued interest	**28,564**	29,100
Less: Allowance for impairment losses	**(3,263)**	(3,369)
Total	**1,929,689**	2,000,505
Financial investments at FVOCI		
Debt investments at FVOCI		
– Listed in Hong Kong	**155,781**	106,465
– Listed outside Hong Kong	**382,695**	236,079
– Unlisted	**115,776**	91,209
Accrued interest	**6,459**	3,877
Subtotal	**660,711**	437,630
Equity investments at FVOCI		
– Listed in Hong Kong	**677**	991
– Listed outside Hong Kong	**1,639**	1,423
– Unlisted	**6,629**	4,974
Subtotal	**8,945**	7,388
Total	**669,656**	445,018

The Group designates part of non-trading equity investments as financial investments measured at FVOCI.

(All amounts expressed in millions of RMB unless otherwise stated)

21 FINANCIAL INVESTMENTS *(Continued)*

The movements in the gross carrying amount of financial investments are summarised as follows:

	Debt investments at FVOCI			Financial investments at amortised cost			
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2019	437,630	–	–	2,002,789	–	1,085	2,441,504
New financial assets originated or purchased	415,485	–	–	289,477	–	–	704,962
Financial assets derecognised during the year	(205,700)	–	–	(360,855)	–	(21)	(566,576)
Transfers:	–	–	–	(1,816)	1,497	319	–
Transfer between Stage 1 and Stage 2, net	–	–	–	*(1,497)*	*1,497*	–	–
Transfer between Stage 1 and Stage 3, net	–	–	–	*(319)*	–	*319*	–
Transfer between Stage 2 and Stage 3, net	–	–	–	–	–	–	–
Changes in accrual interest	2,582	–	–	(536)	–	–	2,046
Exchange differences and other movements	5,822	–	–	1,013	–	–	6,835
Changes in fair value	4,892	–	–	–	–	–	4,892
As at 31 December 2019	660,711	–	–	1,930,072	1,497	1,383	2,593,663

	Debt investments at FVOCI			Financial investments at amortised cost			
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2018	369,318	–	–	1,886,559	54	576	2,256,507
New financial assets originated or purchased	283,626	–	–	406,039	–	–	689,665
Financial assets derecognised during the year	(224,823)	–	–	(319,166)	(54)	(16)	(544,059)
Transfers:	–	–	–	(525)	–	525	–
Transfer between Stage 1 and Stage 2, net	–	–	–	–	–	–	–
Transfer between Stage 1 and Stage 3, net	–	–	–	*(525)*	–	*525*	–
Transfer between Stage 2 and Stage 3, net	–	–	–	–	–	–	–
Changes in accrual interest	3,877	–	–	29,100	–	–	32,977
Exchange differences and other movements	3,037	–	–	782	–	–	3,819
Changes in fair value	2,595	–	–	–	–	–	2,595
As at 31 December 2018	437,630	–	–	2,002,789	–	1,085	2,441,504

(All amounts expressed in millions of RMB unless otherwise stated)

21 FINANCIAL INVESTMENTS *(Continued)*

The movements in allowance for impairment losses of financial investments are summarised as follows:

	Debt investments at FVOCI			Financial investments at amortised cost			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2019	718	–	467	2,884	–	485	4,554
Addition/(Reversal)	114	–	(81)	(148)	–	(13)	(128)
Written-offs	–	–	–	–	–	–	–
Recovery after written-offs	–	–	–	–	–	13	13
Transfers:	–	–	–	(56)	52	4	–
Transfer between Stage 1 and Stage 2, net	–	–	–	*(52)*	*52*	–	–
Transfer between Stage 1 and Stage 3, net	–	–	–	*(4)*	–	*4*	–
Transfer between Stage 2 and Stage 3, net	–	–	–	–	–	–	–
Remeasurement	(193)	–	–	(226)	126	141	(152)
Exchange differences	21	–	7	1	–	–	29
As at 31 December 2019	**660**	**–**	**393**	**2,455**	**178**	**630**	**4,316**

	Debt investments at FVOCI			Financial investments at amortised cost			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2018	438	–	454	3,246	10	475	4,623
Addition/(Reversal)	273	–	(8)	(336)	(10)	(16)	(97)
Written-offs	–	–	–	–	–	–	–
Recovery after written-offs	–	–	–	–	–	–	–
Transfers:	–	–	–	(26)	–	26	–
Transfer between Stage 1 and Stage 2, net	–	–	–	–	–	–	–
Transfer between Stage 1 and Stage 3, net	–	–	–	*(26)*	–	*26*	–
Transfer between Stage 2 and Stage 3, net	–	–	–	–	–	–	–
Exchange differences	7	–	21	–	–	–	28
As at 31 December 2018	718	–	467	2,884	–	485	4,554

(All amounts expressed in millions of RMB unless otherwise stated)

21 FINANCIAL INVESTMENTS *(Continued)*

Debt securities analysed by issuer are as follows:

	As at 31 December 2019	As at 31 December 2018
Debt investments at FVOCI		
– Governments and central banks	**258,959**	66,621
– Public sector entities	**2,108**	3,699
– Banks and other financial institutions	**329,703**	312,339
– Corporate entities	**69,941**	54,971
Total	**660,711**	437,630
Bond investments at amortised cost		
– Governments and central banks	**1,521,473**	1,439,657
– Public sector entities	**25,689**	28,364
– Banks and other financial institutions	**215,817**	292,631
– Corporate entities	**27,038**	38,411
Total	**1,790,017**	1,799,063

The certificates of deposits held included in financial investments are analysed as follows:

	As at 31 December 2019	As at 31 December 2018
Financial investments at FVOCI		
– Listed in Hong Kong	**1,411**	1,047
– Listed outside Hong Kong	**3,606**	44,682
– Unlisted	**38,088**	44,354
Total	**43,105**	90,083

The maturity profile of certificates of deposits in the inter-bank market held by the remaining period as at period end to the contractual maturity dates are summarised as follows:

	As at 31 December 2019	As at 31 December 2018
Within 3 months	**3,129**	14,407
3 months to 12 months	**15,341**	58,075
1 year to 5 years	**22,368**	17,072
Over 5 years	**2,267**	529
Total	**43,105**	90,083

(All amounts expressed in millions of RMB unless otherwise stated)

22 PRINCIPAL SUBSIDIARIES

22.1 Details of the principal subsidiaries

Name of subsidiaries	Place of incorporation and operation	Date of incorporation	Issued and fully paid up share capital	Proportion of ownership interest and voting power held by the Group (%)	Principal activities
Bank of Communications Financial Leasing Co., Ltd.	Mainland China	20 Dec. 2007	RMB8,500,000,000	100.00	Financial leasing
Bank of Communications International Trust Co., Ltd.	Mainland China	18 Oct. 2007	RMB5,764,705,882	85.00	Trust investment
Bank of Communications Schroder Fund Management Co., Ltd.	Mainland China	4 Aug. 2005	RMB200,000,000	65.00	Fund management
BoCommlife Insurance Company Limited	Mainland China	27 Jan. 2010	RMB5,100,000,000	62.50	Life Insurance
BoCom International Holdings Company Limited (formerly known as BoCom Securities Company Limited)	Hong Kong China	2 May. 2007	HKD2,734,392,000	73.14	Securities dealing and brokerage
China BoCom Insurance Co., Ltd. (formerly known as China Communications Insurance Company Limited)	Hong Kong China	1 Nov. 2000	HKD400,000,000	100.00	General insurance and reinsurance
Dayi BoCom Xingmin Rural Bank Ltd.	Mainland China	15 Aug. 2008	RMB60,000,000	61.00	Commercial banking
Zhejiang Anji BoCom Rural Bank Ltd.	Mainland China	18 Mar. 2010	RMB180,000,000	51.00	Commercial banking
Xinjiang Shihezi BoCom Rural Bank Company Ltd.	Mainland China	13 Apr. 2011	RMB150,000,000	51.00	Commercial banking
Qingdao Laoshan BoCom Rural Bank Company Ltd.	Mainland China	16 Aug. 2012	RMB150,000,000	51.00	Commercial banking
Bank of Communications (Luxemburg) Limited	Luxembourg	7 May. 2015	EUR100,000,000	100.00	Commercial banking
Bank of Communications Financial Assets Investment Co., Ltd.	Mainland China	29 Dec. 2017	RMB10,000,000,000	100.00	Debt-to-equity swaps
Bank of Communications (Hong Kong) Limited	Hong Kong China	29 Jan.2018	HKD17,900,000,000	100.00	Commercial banking
BOCOM Wealth Management Co., Ltd.	Mainland China	6 June. 2019	RMB8,000,000,000	100.00	Financial products issuing and financial consulting
BoCom Brazil Holding Company Ltd.	Brazil	11 Mar. 2016	BRL533,377,877	100.00	Investment
BANCO Bocom BBM S.A.	Brazil	29 Jun. 1967	BRL313,686,111	80.00	Commercial banking

As at 31 December 2019, the amount of non-controlling interests of these subsidiaries is insignificant to the Group.

22.2 Changes of principal subsidiaries

(1) On 6 June 2019, the Bank set up a wholly-owned subsidiary, BOCOM Wealth Management Co., Ltd., which was approved by CBIRC on 28 May 2019 with the registered capital of RMB8 billion. As at 31 December 2019, the Bank held 100% of the total capital of BOCOM Wealth Management Co., Ltd.

(2) On 4 December 2019, the Bank increased the capital of Bocom Brazil Holding Company Ltda by BRL32,122,063.84. As at 31 December 2019, the Bank and its subsidiary held 100% of Bocom Brazil Holding Company Ltda.

(3) The liquidation of Bank of Communications (UK) Limited was completed in 2019 and deregistration was completed on 23 January 2020. As at 31 December 2019, Bank of Communications (UK) Limited was no longer included in the Group's consolidated financial statements.

(All amounts expressed in millions of RMB unless otherwise stated)

22 PRINCIPAL SUBSIDIARIES *(Continued)*

22.3 Auditors of subsidiaries

For the year ended 31 December 2019, PricewaterhouseCoopers was the auditor of all principal subsidiaries incorporated in Hong Kong (for the year ended 31 December 2018: PricewaterhouseCoopers).

For the year ended 31 December 2019, PricewaterhouseCoopers ZhongTian Certified Public Accountants LLP was the auditor of all principal subsidiaries incorporated in PRC (for the year ended 31 December 2018: PricewaterhouseCoopers ZhongTian Certified Public Accountants LLP).

For the year ended 31 December 2019, Bank of Communications (Luxemburg) Limited was audited by PricewaterhouseCoopers, Société coopérative (for the year ended 31 December 2018: PricewaterhouseCoopers, Société coopérative).

For the year ended 31 December 2019, BoCom Brazil Holding Company Ltda and BANCO Bocom BBM S.A. were audited by PricewaterhouseCoopers LLP(for the year ended 31 December 2018: PricewaterhouseCoopers LLP).

23 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

	As at 31 December 2019	As at 31 December 2018
Investments in associates		
Investment cost	**3,506**	2,977
Share of net profit of associates for the year	**1,080**	666
Share of other equity changes of associates for the year	**71**	44
Dividend income	**(93)**	(42)
Subtotal	**4,564**	3,645
Investments in joint ventures	**36**	8
Total	**4,600**	3,653

The Group's investments in associates mainly include the investments in Jiangsu Changshu Rural Commercial Bank Co., Ltd. and Bank of Tibet Co., Ltd.

Jiangsu Changshu Rural Commercial Bank Co., Ltd. was incorporated in Changshu City, Jiangsu Province on 3 December 2001. The registered capital of the entity is RMB2,741 million, and the principal activities of the entity are banking activities. The Group held 9.01% of equity interest in this associate as at 31 December 2019 (31 December 2018: 8.84%).

There are 15 directors at the Board of Directors of Jiangsu Changshu Rural Commercial Bank Co., Ltd., of which 3 directors were nominated by the Group. Accordingly, the Group is able to exert significant influence on such company, so such company is accounted for as an associate.

Bank of Tibet Co., Ltd. was incorporated in Tibet Autonomous Region, PRC on 30 December 2011. The registered capital of the entity is RMB3,320 million, and the principal activities of the entity are banking activities. The Group held 10.60% of equity interest in this associate as at 31 December 2019 (31 December 2018: 10.60%).

There are 12 directors at the Board of Directors of Bank of Tibet Co., Ltd., of which 3 directors were nominated by the Group. Accordingly, the Group is able to exert significant influence on such company, so such company is accounted for as an associate.

(All amounts expressed in millions of RMB unless otherwise stated)

24 PROPERTY AND EQUIPMENT

	Land and buildings	Construction in progress	Equipment	Transportation equipment	Property improvement	Total
Cost						
As at 1 January 2019	61,594	2,407	25,523	108,553	9,133	207,210
Additions	173	965	2,077	28,201	103	31,519
Disposals	(468)	–	(2,250)	(2,314)	(124)	(5,156)
Construction in progress transfer in/(out)	326	(731)	–	–	405	–
Other transfers in/(out)	139	(16)	–	–	(139)	(16)
As at 31 December 2019	61,764	2,625	25,350	134,440	9,378	233,557
Accumulated depreciation						
As at 1 January 2019	(16,860)	–	(20,288)	(11,540)	(5,103)	(53,791)
Charge for the year	(1,975)	–	(2,065)	(5,908)	(822)	(10,770)
Disposals	157	–	2,110	171	101	2,539
As at 31 December 2019	(18,678)	–	(20,243)	(17,277)	(5,824)	(62,022)
Allowance for impairment losses						
As at 1 January 2019	–	(16)	–	(117)	–	(133)
Provision for impairment	–	–	–	(233)	–	(233)
Decrease	–	–	–	10	–	10
As at 31 December 2019	–	(16)	–	(340)	–	(356)
Net book value						
As at 31 December 2019	43,086	2,609	5,107	116,823	3,554	171,179

As at 31 December 2019, the net book value of aircrafts and vessels leased out by the Group under operating lease arrangements was RMB116,540 million (31 December 2018: RMB96,623 million). Among them, the net book value of the aircrafts and vessels used as collateral for borrowings was RMB59,957 million (31 December 2018: RMB59,279 million).

As at 31 December 2019, the property and equipment with re-registration procedure not completed amounted to RMB198 million (31 December 2018: RMB203 million). However, this registration process does not affect the rights of the Bank to these assets.

(All amounts expressed in millions of RMB unless otherwise stated)

24 PROPERTY AND EQUIPMENT *(Continued)*

	Land and buildings	Construction in progress	Equipment	Transportation equipment	Property improvement	Total
Cost						
As at 1 January 2018	58,158	4,286	25,184	82,885	7,961	178,474
Additions	1,367	1,249	2,149	25,745	139	30,649
Transfer in from investment properties	458	–	–	–	–	458
Disposals	(294)	–	(1,810)	(77)	(138)	(2,319)
Construction in progress transfer in/(out)	2,433	(3,076)	–	–	643	–
Other transfers in/(out)	(528)	(52)	–	–	528	(52)
As at 31 December 2018	61,594	2,407	25,523	108,553	9,133	207,210
Accumulated depreciation						
As at 1 January 2018	(15,006)	–	(19,607)	(7,018)	(4,251)	(45,882)
Charge for the year	(1,890)	–	(2,249)	(4,591)	(866)	(9,596)
Transfer in from investment properties	–	–	–	–	–	–
Transfers in	7	–	–	–	(7)	–
Disposals	29	–	1,568	69	21	1,687
As at 31 December 2018	(16,860)	–	(20,288)	(11,540)	(5,103)	(53,791)
Allowance for impairment losses						
As at 1 January 2018	–	(16)	–	(84)	–	(100)
Provision for impairment	–	–	–	(33)	–	(33)
Decrease	–	–	–	–	–	–
As at 31 December 2018	–	(16)	–	(117)	–	(133)
Net book value						
As at 31 December 2018	44,734	2,391	5,235	96,896	4,030	153,286

(All amounts expressed in millions of RMB unless otherwise stated)

25 DEFERRED INCOME TAX

Deferred income taxes for transactions in PRC are calculated on all temporary differences using an effective tax rate of 25% for the year ended 31 December 2019 (for the year ended 31 December 2018: 25%). Deferred income taxes for transactions in Hong Kong are calculated on all temporary differences using an effective tax rate of 16.5% (for the year ended 31 December 2018: 16.5%).

The movements in the deferred income tax account are as follows:

	Allowance for impairment losses	Provisions	Retirement supplementary pension payable	Changes in fair value of financial assets at FVOCI	Changes in fair value of derivative instruments	Changes in fair value of investment properties	Changes in fair value of financial investments and financial liabilities at FVPL	Others	Total
Balance at 1 January 2019	18,947	1,516	102	484	(412)	(584)	(538)	1,862	21,377
Recognised in profit or loss	2,742	324	(3)	–	1,778	(96)	(1,036)	(319)	3,390
Recognised in other comprehensive income	(611)	–	–	(1,014)	5	–	–	–	(1,620)
Balance at 31 December 2019	21,078	1,840	99	(530)	1,371	(680)	(1,574)	1,543	23,147

	Allowance for impairment losses	Provisions	Retirement supplementary pension payable	Changes in fair value of financial assets at FVOCI	Changes in fair value of derivative instruments	Changes in fair value of investment properties	Changes in fair value of financial investments and financial liabilities at FVPL	Others	Total
Balance at 31 December 2017	12,844	110	99	–	(163)	(522)	916	1,988	15,272
Impact of adoption of IFRS 9 on opening balance	9,004	–	–	1,095	–	–	36	–	10,135
Balance at 1 January 2018	21,848	110	99	1,095	(163)	(522)	952	1,988	25,407
Recognised in profit or loss	(2,901)	1,406	3	–	(243)	(62)	(1,490)	(126)	(3,413)
Recognised in other comprehensive income	–	–	–	(611)	(6)	–	–	–	(617)
Balance at 31 December 2018	18,947	1,516	102	484	(412)	(584)	(538)	1,862	21,377

(All amounts expressed in millions of RMB unless otherwise stated)

25 DEFERRED INCOME TAX *(Continued)*

Deferred income tax assets and liabilities are attributable to the following items:

	As at 31 December 2019		As at 31 December 2018	
	Deductible/ (Taxable) temporary differences	Deferred income tax assets/ (liabilities)	Deductible/ (Taxable) temporary differences	Deferred income tax assets/(liabilities)
Deferred income tax liabilities				
Changes in fair value of financial assets at FVOCI	(4,632)	(1,158)	(351)	(88)
Changes in fair value of financial assets and liabilities at FVPL	(8,272)	(2,068)	(4,021)	(1,005)
Changes in fair value of derivative instruments	(20,937)	(5,235)	(30,566)	(7,642)
Changes in fair value of investment properties	(2,720)	(680)	(2,334)	(584)
Others	(2,408)	(602)	(336)	(84)
	(38,969)	(9,743)	(37,608)	(9,403)
Deferred income tax assets				
Allowance for impairment of assets	84,312	21,078	75,789	18,947
Retirement supplementary pension payable	399	99	408	102
Provisions	7,361	1,840	6,063	1,516
Changes in fair value of financial assets and liabilities at FVPL	1,976	494	1,866	467
Changes in fair value of financial assets at FVOCI	2,512	628	2,288	572
Changes in fair value of derivative instruments	26,424	6,606	28,921	7,230
Others	8,580	2,145	7,782	1,946
	131,564	32,890	123,117	30,780
Net deferred income tax assets	92,595	23,147	85,509	21,377

The above net deferred income tax assets are disclosed separately on the statements of financial position based on different taxation authorities and entities:

	As at 31 December 2019	As at 31 December 2018
Deferred income tax assets	24,065	21,975
Deferred income tax liabilities	(918)	(598)

(All amounts expressed in millions of RMB unless otherwise stated)

26 OTHER ASSETS

	As at 31 December 2019	As at 31 December 2018
Interest receivable[1]	**3,827**	3,849
Settlement accounts	**7,567**	7,562
Other receivables and prepayments	**41,344**	30,050
Less: Allowance for impairment losses (c)	**(2,717)**	(2,152)
Investment properties (b)	**7,894**	7,899
Right-of-use assets(e)	**6,521**	Not applicable
Land use rights and others	**1,936**	1,869
Intangible assets (a)	**1,368**	1,309
Long-term deferred expenses	**714**	692
Precious metal	**758**	925
Foreclosed assets	**759**	824
Goodwill (d)	**430**	437
Refundable deposits	**493**	425
Unsettled assets	**33**	33
Others	**15,723**	15,286
	86,650	69,008

Note 1: The interest receivable account only reflects the interest for relevant financial instruments which is due but not received on balance sheet date.

(a) Intangible assets

	Software
Cost	
As at 1 January 2019	**3,028**
Additions	**365**
Transfers in	**–**
Disposals	**(7)**
As at 31 December 2019	**3,386**
Accumulated amortisation	
As at 1 January 2019	**(1,719)**
Amortisation expense	**(306)**
Transfers in	**–**
Disposals	**7**
As at 31 December 2019	**(2,018)**
Net book value	**1,368**

	Software
Cost	
As at 1 January 2018	2,780
Additions	270
Transfers in	–
Disposals	(22)
As at 31 December 2018	3,028
Accumulated amortisation	
As at 1 January 2018	(1,452)
Amortisation expense	(271)
Transfers in	–
Disposals	4
As at 31 December 2018	(1,719)
Net book value	1,309

(All amounts expressed in millions of RMB unless otherwise stated)

26 OTHER ASSETS *(Continued)*

(b) Investment properties

	As at 1 January 2019	Additions/ (Decreases) of the year	Gains on property revaluation	Exchange differences	As at 31 December 2019
Investment properties	**7,899**	**–**	**31**	**(36)**	**7,894**

	As at 1 January 2018	Additions/ (Decreases) of the year	Gains on property revaluation	Exchange differences	As at 31 December 2018
Investment properties	8,217	(458)	117	23	7,899

The Group's investment properties are located in active real estate markets. The external appraisers make reasonable estimation of fair value using market prices of the similar properties.

As at 31 December 2019, fair value hierarchies of the investment properties of the Group are as follows:

	Level 1	Level 2	Level 3	As at 31 December 2019
Commercial property units located in Hong Kong	–	–	1,171	1,171
Commercial property units located outside Hong Kong	–	–	6,723	6,723

The valuation of investment properties was performed by independent qualified professional valuers not connected to the Group. Valuation methodologies include "Rental Income Approach" and "Direct Comparison Approach". The inputs to these models mainly include growth rate of rental, capitalisation rate and unit price.

(c) Allowance for impairment losses

	As at 1 January 2019	Amounts accrued	Reversal	Written-offs	Transfers (in)/out	Recoveries after written-offs	Exchange differences	As at 31 December 2019
Other receivables and prepayments	**(2,152)**	**(2,134)**	**524**	**1,140**	**(13)**	**(80)**	**(2)**	**(2,717)**
Total	**(2,152)**	**(2,134)**	**524**	**1,140**	**(13)**	**(80)**	**(2)**	**(2,717)**

	As at 1 January 2018	Amounts accrued	Reversal	Written-offs	Transfers (in)/out	Recoveries after written-offs	Exchange differences	As at 31 December 2018
Other receivables and prepayments	(1,940)	(1,574)	499	864	41	(41)	(1)	(2,152)
Total	(1,940)	(1,574)	499	864	41	(41)	(1)	(2,152)

(All amounts expressed in millions of RMB unless otherwise stated)

26 OTHER ASSETS *(Continued)*

(d) Goodwill

	As at 1 January 2019	Addition during the year	Decrease during the year	Exchange differences	As at 31 December 2019
Bank of Communications International Trust Co., Ltd.	**200**	**–**	**–**	**–**	**200**
BoCommLife Insurance Company Limited	**122**	**–**	**–**	**–**	**122**
BANCO Bocom BBM S.A	**115**	**–**	**–**	**(7)**	**108**
Total	**437**	**–**	**–**	**(7)**	**430**

	As at 1 January 2018	Addition during the year	Decrease during the year	Exchange differences	As at 31 December 2018
Bank of Communications International Trust Co., Ltd.	200	–	–	–	200
BoCommLife Insurance Company Limited	122	–	–	–	122
BANCO Bocom BBM S.A	131	–	–	(16)	115
Total	453	–	–	(16)	437

At each end of year, the Group performed impairment tests on goodwill. In the test, the Group compares the book value of cash-generating unit (CGU) or CGUs (including goodwill) with the recoverable amount. If the recoverable amount is less than the book value, the related difference is recognised in profit or loss.

The Group calculates the recoverable amount of CGU and CGUs using cash flow models based on the management's approved financial forecasts and fixed growth rates afterwards.

As indicated by the impairment tests, goodwill arising from business combinations is not impaired and therefore, no impairment loss is recognised.

(e) Right-of-use assets

	As at 31 December 2019
Gross:	
Opening balance	**14,493**
Additions	**2,124**
Decreases	**(3,104)**
Balance at the end of the period	**13,513**
Accumulated depreciation:	
Opening balance	**(7,372)**
Additions	**(2,550)**
Decreases	**2,930**
Balance at the end of the period	**(6,992)**
Net book value:	
As at 1 January 2019	**7,121**
As at 31 December 2019	**6,521**
Lease liabilities	
As at 31 December 2019	**6,344**

(All amounts expressed in millions of RMB unless otherwise stated)

26 OTHER ASSETS *(Continued)*

(e) Right-of-use assets *(Continued)*

As at 31 December 2019, leases not yet commenced to which the lease is committed were RMB195 million.

The Group's right-of-use assets include the above assets and land use rights.

27 DUE TO AND PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 31 December 2019	As at 31 December 2018
Borrowing from central banks	**456,314**	511,284
Accrued interest	**6,619**	8,854
Due to banks		
– Banks operating in Mainland China	**284,254**	327,250
– Banks operating outside Mainland China	**14,213**	16,729
Due to other financial institutions		
– Other financial institutions operating in Mainland China	**602,870**	724,295
– Other financial institutions operating outside Mainland China	**14,645**	11,851
Accrued interest	**5,672**	21,199
Placements from banks		
– Banks operating in Mainland China	**154,740**	131,865
– Banks operating outside Mainland China	**245,877**	260,241
Placements from other financial institutions		
– Other financial institutions operating in Mainland China	**701**	651
– Other financial institutions operating outside Mainland China	**10,303**	8,083
Accrued interest	**1,016**	2,478
Financial assets sold under repurchase agreements		
– Securities	**34,176**	107,367
– Bills	**72,553**	30,072
Accrued interest	**129**	74
Total	**1,904,082**	2,162,293

28 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 31 December 2019	As at 31 December 2018
Certificates of deposit issued	**13,392**	11,660
Financial liabilities related to precious metal contracts	**12,950**	11,449
Notes issued	**638**	–
Total	**26,980**	23,109

Except for certificates of deposit issued and notes issued which are designated at fair value through profit or loss, the financial liabilities at fair value through profit or loss are financial liabilities held for trading.

Financial liabilities designated at fair value through profit or loss

	As at 31 December 2019	As at 31 December 2018
Difference between carrying amount and maturity amount		
Fair values	**14,030**	11,660
Amount payable at maturity	**13,976**	11,663
Total	**54**	(3)

(All amounts expressed in millions of RMB unless otherwise stated)

28 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS *(Continued)*

Financial liabilities designated at fair value through profit or loss *(Continued)*

For the year ended 31 December 2019 and the year ended 31 December 2018, there were no significant changes in the fair value of the Group's financial liabilities designated at fair value through profit or loss that were attributable to the changes in credit risk.

29 DUE TO CUSTOMERS

	As at 31 December 2019	As at 31 December 2018
Corporate demand deposits	**1,835,688**	1,748,857
Corporate time deposits	**2,196,096**	2,195,241
Individual demand deposits	**762,669**	687,393
Individual time deposits	**1,207,253**	1,089,095
Other deposits	**3,364**	3,903
Due to customers	**6,005,070**	5,724,489
Accrued interest	**67,838**	68,835
Total	**6,072,908**	5,793,324
Including:		
Deposits pledged as collateral	**246,727**	297,707

30 CERTIFICATES OF DEPOSITS ISSUED

Certificates of deposits at year end were issued by the Bank's domestic branches, branches in Macau, Taipei, Hong Kong, New York, Tokyo, Singapore, Seoul, Sydney, London, Luxembourg and Frankfurt, and BANCO Bocom BBM S.A., which were measured at amortised cost.

31 DEBT SECURITIES ISSUED

		As at 31 December 2019	As at 31 December 2018
Carried at amortised cost:			
Subordinated bonds	31.1	**25,950**	39,450
Tier 2 capital bonds	31.2		
The Bank		**73,843**	70,017
Subsidiaries		**1,994**	1,994
Bonds			
The Bank	31.3	**194,422**	115,431
Subsidiaries	31.3	**83,688**	70,777
Accrued interest		**3,584**	3,463
Subtotal		**383,481**	301,132
Carried at fair value:			
Bonds	31.3		
The Bank		**20,437**	16,556
Total		**403,918**	317,688

Note 1: Debt securities issued are designated as fair value through profit or loss upon initiation as the Hong Kong branch of the Bank considers such designation could eliminate or significantly reduce a measurement or recognition inconsistency that would otherwise result from measuring the corresponding financial assets or recognising the gains or losses on them on different basis. Accordingly, the debts are designated as fair value through profit or loss with changes in fair values charged to profit and loss account. For the year ended 31 December 2019 and the year ended 31 December 2018, there were no significant changes that were attributable to the Group's changes in credit risks.

(All amounts expressed in millions of RMB unless otherwise stated)

31 DEBT SECURITIES ISSUED *(Continued)*

31.1 Subordinated bonds

Detailed information of subordinated bonds is disclosed as follows:

	Currency	Issue place	Coupon rate %	Par value (CCY)	Issue date	Maturity	Note	Issue amount	Ending balance	Opening balance
09 BoComm 02	RMB	Mainland China	4.00	13,500	2009/07/01	15 years	(a)	13,500	–	13,500
11 BoComm 01	RMB	Mainland China	5.75	26,000	2011/10/21	15 years	(b)	26,000	25,950	25,950
Total								39,500	25,950	39,450

(a) The Group has redeemed full face value of 09 BoComm 02 by exercising redemption option on 3 July 2019.

(b) The Group has an option to redeem 11 BoComm 01 on 24 October 2021. The bonds bear a fixed coupon rate of 5.75%.

31.2 Tier 2 capital bonds

Detailed information of Tier 2 capital bonds is disclosed as follows:

	Currency	Issue place	Coupon rate %	Par value (CCY)	Issue date	Maturity	Note	Issue amount	Ending balance	Opening balance
The Bank										
14 BoComm 01	RMB	Mainland China	5.80	28,000	2014/08/18	10 years	(a)	28,000	–	27,976
14 BoComm 01-USD	USD	Hong Kong China	4.50	1,200	2014/10/03	10 years	(b)	8,371	–	8,169
14 BoComm 01-Euro	EUR	Hong Kong China	3.625	500	2014/10/03	12 years	(c)	3,908	3,883	3,904
17 BoComm 02	RMB	Mainland China	4.50	30,000	2017/04/11	10 years	(d)	30,000	29,960	29,968
19 BoComm 01	RMB	Mainland China	4.10	30,000	2019/08/14	10 years	(e)	30,000	30,000	–
19 BoComm 02	RMB	Mainland China	4.49	10,000	2019/08/14	15 years	(f)	10,000	10,000	–
Subtotal								110,279	73,843	70,017
Subsidiaries										
18 Leasing 02	RMB	Mainland China	5.15	2,000	2018/09/18	10 years	(g)	2,000	1,994	1,994
Subtotal								2,000	1,994	1,994
Total								112,279	75,837	72,011

(a) The Group has redeemed full par value of 14 BoComm 01 by exercising redemption option on 19 August 2019.

(b) The Group has redeemed full face value of 14 BoComm 01-USD by exercising redemption option on 3 October 2019.

(c) The Group has an option to redeem 14 BoComm 01-Euro as a whole on 3 October 2021. If the issuer does not exercise the redemption right by 3 October 2021, the interest rate will be adjusted based on interest rate of 5-year Euro plus 300 basis points.

(d) The Group has an option to redeem them at the par value partially or as a whole on 13 April 2022, the first day upon the end of the fifth interest-bearing year, provided that CBIRC's permission is acquired in advance and the Group's capital structure fulfills the CBIRC requirements on capital if the redemption is exercised.

(All amounts expressed in millions of RMB unless otherwise stated)

31 DEBT SECURITIES ISSUED *(Continued)*

31.2 Tier 2 capital bonds *(Continued)*

(e) The Group has an option to redeem them at the par value partially or as a whole on 16 August 2024, the first day upon the end of the fifth interest-bearing year, provided that CBIRC's permission is acquired in advance and the Group's capital structure fulfills the CBIRC requirements on capital if the redemption is exercised.

(f) The Group has an option to redeem them at the par value partially or as a whole on 16 August 2029, the first day upon the end of the tenth interest-bearing year, provided that CBIRC's permission is acquired in advance and the Group's capital structure fulfills the CBIRC requirements on capital if the redemption is exercised.

(g) The Group has an option to redeem them at the par value partially or as a whole on 20 September 2023, the first day upon the end of the fifth interest-bearing year, provided that CBIRC's permission is acquired in advance.

These Tier 2 capital bonds have the write-down feature, which allows the Group to write down the entire principal of the bonds when regulatory triggering events as stipulated in the offering documents occur and any accumulated unpaid interest would become not payable. These bonds are regarded as Tier 2 capital without any guarantees provided and the proceeds of the debts cannot be used for compensating daily operating loss of the Group.

31.3 Bonds

Detailed information of bonds held at amortised cost is as follows:

	Currency	Issue place	Coupon rate %	Par value (CCY)	Issue date	Maturity	Issue amount	Ending balance	Opening balance
The Bank									
15 BoComm	RMB	Mainland China	3.45	30,000	2015/12/17	5 years	30,000	30,000	30,000
16 BoComm Green Financial bond 01	RMB	Mainland China	2.94	10,000	2016/11/18	3 years	10,000	–	10,000
16 BoComm Green Financial bond 02	RMB	Mainland China	3.25	20,000	2016/11/18	5 years	20,000	20,000	20,000
17 BoComm Green Financial bond	RMB	Mainland China	4.29	20,000	2017/10/26	3 years	20,000	20,000	20,000
18 Bocom Micro Small Enterprises Bond	RMB	Mainland China	3.79	10,000	2018/11/28	3 years	10,000	10,000	10,000
19 Bocomm 01	RMB	Mainland China	3.35	50,000	2019/11/27	3 years	50,000	50,000	–
19 Bocomm 02	RMB	Mainland China	3.36	40,000	2019/12/13	3 years	40,000	40,000	–
14 Formosa Bond B	RMB	Taiwan China	3.85	500	2014/06/23	5 years	500	–	499
14 Formosa Bond C	RMB	Taiwan China	4.15	500	2014/06/23	7 years	500	498	499
17 medium-term notes 01	USD	Hong Kong China	3MLibor +0.78	700	2017/05/15	3 years	4,883	4,886	4,802
17 medium-term notes 02	USD	Hong Kong China	3MLibor +0.88	300	2017/05/15	5 years	2,093	2,094	2,058
17 medium-term notes 03	USD	Hong Kong China	3MLibor +0.80	400	2017/12/04	3 years	2,790	2,792	2,744
17 medium-term notes 04	USD	Hong Kong China	3MLibor +0.90	600	2017/12/04	5 years	4,186	4,188	4,116
18 medium-term notes 01	USD	Hong Kong China	3MLibor +0.75	600	2018/05/17	3 years	4,186	4,188	4,116
18 medium-term notes 02	USD	Hong Kong China	3MLibor +0.85	700	2018/05/17	5 years	4,883	4,886	4,802
P14JHTP1B	RMB	Taiwan China	3.75	900	2014/12/04	5 years	900	–	898
P14JHTP1C	RMB	Taiwan China	3.90	700	2014/12/04	7 years	700	692	698
P14JHTP1D	RMB	Taiwan China	4.00	200	2014/12/04	10 years	200	198	199
Sub-total							205,821	194,422	115,431
Subsidiaries									
13 Azure Orbit	USD	Hong Kong China	3.75	500	2013/03/06	10 years	3,488	3,484	3,427
14 Azure Orbit	USD	Hong Kong China	3.375	500	2014/04/25	5 years	3,488	–	3,428
5 Year medium-term notes	USD	Hong Kong China	3.125	385	2015/08/18	5 years	2,686	2,497	2,642
3 Year USD bond	USD	Hong Kong China	2.23	400	2016/03/15	3 years	2,790	–	2,745
5 Year USD bond	USD	Hong Kong China	2.748	600	2016/03/15	5 years	4,186	4,179	4,105

(All amounts expressed in millions of RMB unless otherwise stated)

31 DEBT SECURITIES ISSUED *(Continued)*

31.3 Bonds *(Continued)*

	Currency	Issue place	Coupon rate %	Par value (CCY)	Issue date	Maturity	Issue amount	Ending balance	Opening balance
3 Year USD bond	USD	Hong Kong China	3.50	300	2018/01/25	3 years	2,093	2,090	2,035
5 Year USD bond	USD	Hong Kong China	3.75	950	2018/01/25	5 years	6,627	6,592	6,496
10 Year USD bond	USD	Hong Kong China	4.00	250	2018/01/25	10 years	1,744	1,727	1,692
19 Brazil bonds	BRL	Brazil	110%SELIC	200	2019/01/30	5 years	339	66	–
16 Leasing 01	RMB	Mainland China	3.17	4,000	2016/07/21	3 years	4,000	–	3,898
16 Leasing 02	RMB	Mainland China	3.05	1,500	2016/09/07	3 years	1,500	–	1,199
16 Leasing 03	RMB	Mainland China	3.25	500	2016/09/07	5 years	500	449	449
17 Leasing 01	RMB	Mainland China	4.53	2,000	2017/07/18	3 years	2,000	1,949	1,947
17 Leasing 02	RMB	Mainland China	4.60	3,000	2017/08/22	3 years	3,000	2,398	2,395
17 Leasing 03	RMB	Mainland China	4.70	3,000	2017/10/18	3 years	3,000	2,398	2,395
18 Leasing 02	RMB	Mainland China	4.14	4,000	2018/10/22	3 years	4,000	3,993	3,989
Azure Nova	USD	Hong Kong China	2.25	500	2016/10/25	3 years	3,488	–	3,431
Azure Nova	USD	Hong Kong China	2.625	1,000	2016/10/25	5 years	6,976	6,956	6,847
Azure Nova	USD	Hong Kong China	3.00	700	2017/03/21	3 years	4,883	4,882	4,788
Azure Nova	USD	Hong Kong China	3.50	1,050	2017/03/21	5 years	7,325	7,308	7,171
Azure Nova	USD	Hong Kong China	4.25	250	2017/03/21	10 years	1,744	1,737	1,708
19 USD medium-term notes 01	USD	Hong Kong China	4.00	800	2019/01/22	3 years	5,581	4,134	–
19 USD medium-term notes 02	USD	Hong Kong China	4.375	700	2019/01/22	5 years	4,883	3,139	–
19 USD medium-term notes 03	USD	Hong Kong China	3MLibor+1.2	120	2019/04/12	3 years	837	837	–
19 Leasing 01	RMB	Mainland China	3.68	800	2019/05/20	3 years	5,000	4,550	–
19 Leasing 02	RMB	Mainland China	3.65	700	2019/07/08	3 years	5,000	4,990	–
19 USD medium-term notes 04	USD	Hong Kong China	3MLibor+1.18	120	2019/09/05	5 years	2,790	1,408	–
19 USD medium-term notes 05	USD	Hong Kong China	2.625	120	2019/09/05	5 years	1,395	914	–
18 Leasing 01	RMB	Mainland China	4.53	4,000	2018/07/05	3 years	4,000	3,994	3,990
19 Leasing 03	RMB	Mainland China	3.49	3,500	2019/10/22	3 years	3,500	3,492	–
19 USD medium-term notes 06	USD	Hong Kong China	2.99	180	2019/10/25	3 years	1,256	1,256	–
19 USD medium-term notes 07	USD	Hong Kong China	3MLibor+1.08	600	2019/12/10	3 years	4,186	2,269	–
Sub-total							108,285	83,688	70,777
Total							314,106	278,110	186,208

Detailed information of bonds held at fair value is as follows:

	Currency	Issue place	Coupon rate %	Par value (CCY)	Issue date	Maturity	Issue amount	Fair value at the end of the period	Fair value at the beginning of the period
14 Hong Kong bond	HKD	Hong Kong China	4.00	500	2014/02/14	7 years	448	462	455
14 Hong Kong bond 02	HKD	Hong Kong China	3.20	350	2014/04/02	5 years	314	–	309
16 Hong Kong medium-term notes	USD	Hong Kong China	2.25	500	2016/01/25	3 years	3,488	–	3,462
16 Hong Kong USD medium-term notes	USD	Hong Kong China	3MLibor+0.88	550	2016/08/16	3 years	3,837	–	3,792
17 Hong Kong USD medium-term notes	USD	Hong Kong China	3MLibor+0.78	850	2017/02/21	3 years	5,930	5,931	5,856
18 Hong Kong medium-term notes	HKD	Hong Kong China	2.95	3,000	2018/05/18	2 years	2,687	2,743	2,682
19 Hong Kong RMB medium-term notes	RMB	Hong Kong China	3.40	2,500	2019/03/21	2 years	2,500	2,526	–
19 Hong Kong medium-term notes	HKD	Hong Kong China	2.85	3,500	2019/03/21	5 years	3,135	3,186	–
19 Hong Kong USD medium-term notes	USD	Hong Kong China	3MLibor+0.78	800	2019/03/21	3 years	5,581	5,589	–
Total							27,920	20,437	16,556

(All amounts expressed in millions of RMB unless otherwise stated)

32 OTHER LIABILITIES

	As at 31 December 2019	As at 31 December 2018
Lease liabilities	**6,344**	Not applicable
Insurance contracts reserve	**31,936**	22,821
Settlement accounts	**19,275**	21,692
Staff compensation payable	**11,118**	9,309
Deposits received for finance lease	**7,661**	7,677
VAT and other taxes payable	**4,536**	4,515
Provision for outstanding litigations (a)	**1,029**	982
Allowance for impairment losses of off-balance sheet businesses (b)	**6,332**	5,081
Dividends payable	**87**	77
Others	**75,063**	59,560
Total	**163,381**	131,714

(a) Movements in the provision for outstanding litigations

	As at 1 January 2019	Amounts accrued during the year	Amounts settled during the year	Amounts reversed during the year	Exchange differences	As at 31 December 2019
Provision for outstanding litigations	**982**	**421**	**(3)**	**(371)**	**–**	**1,029**

	As at 1 January 2018	Amounts accrued during the year	Amounts settled during the year	Amounts reversed during the year	Exchange differences	As at 31 December 2018
Provision for outstanding litigations	449	640	(16)	(91)	–	982

(b) Movements in the allowance for impairment losses of off-balance sheet businesses

	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
As at 1 January 2019	**4,741**	**340**	**–**	**5,081**
Addition	**1,068**	**917**	**–**	**1,985**
Transfer out	**(7)**	**(182)**	**–**	**(189)**
Transfers:	**(8)**	**8**	**–**	**–**
Transfer between Stage 1 and Stage 2, net	*(8)*	*8*	**–**	**–**
Remeasurement	**(442)**	**(109)**	**–**	**(551)**
Exchange differences	**6**	**–**	**–**	**6**
As at 31 December 2019	**5,358**	**974**	**–**	**6,332**

	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
As at 1 January 2018	5,475	725	–	6,200
Reversal	(864)	(106)	–	(970)
Transfer in/(out)	–	–	–	–
Transfers:	372	(372)	–	–
Transfer between Stage 1 and Stage 2, net	*372*	*(372)*	–	–
Remeasurement	(258)	86	–	(172)
Exchange differences	16	7	–	23
As at 31 December 2018	4,741	340	–	5,081

33 SHARE CAPITAL AND CAPITAL SURPLUS

	Number of shares (in millions)	**Ordinary shares of RMB1 each**	**Capital surplus**	**Total**
As at 1 January 2019	**74,263**	**74,263**	**113,663**	**187,926**
As at 31 December 2019	**74,263**	**74,263**	**113,663**	**187,926**

	Number of shares (in millions)	Ordinary shares of RMB1 each	Capital surplus	Total
As at 1 January 2018	74,263	74,263	113,663	187,926
As at 31 December 2018	74,263	74,263	113,663	187,926

As at 31 December 2019 and 31 December 2018, the number of A shares of the Group was 39,251 million, and the number of H shares of the Group was 35,012 million, both with par value of RMB1 per share.

As at 31 December 2019 and 31 December 2018, the Group's capital surplus is listed as follows:

	As at 1 January 2019	**Additions**	**Reductions**	**As at 31 December 2019**
Share premium	**113,046**	**–**	**–**	**113,046**
Property revaluation gain designated by MOF	**472**	**–**	**–**	**472**
Donation of non-cash assets	**148**	**–**	**–**	**148**
Movements in non-controlling interests	**(41)**	**–**	**–**	**(41)**
Capital increase in an associate	**16**	**–**	**–**	**16**
Others	**22**	**–**	**–**	**22**
Total	**113,663**	**–**	**–**	**113,663**

	As at 1 January 2018	Additions	Reductions	As at 31 December 2018
Share premium	113,046	–	–	113,046
Property revaluation gain designated by MOF	472	–	–	472
Donation of non-cash assets	148	–	–	148
Movements in non-controlling interests	(41)	–	–	(41)
Capital increase in an associate	16	–	–	16
Others	22	–	–	22
Total	113,663	–	–	113,663

34 OTHER EQUITY INSTRUMENTS

34.1 Preference shares

34.1.1 *Preference shares outstanding at the end of the period*

	Issue date	Accounting classification	Dividend rate	Issue price	Amount in shares	In original currency (in millions)	In RMB (in millions)	Maturity	Conversion condition	Conversion
Offshore preference shares										
Preference shares in USD	2015-07-29	Equity	5.00%	USD20/share	122,500,000	2,450	14,982	No maturity date	Mandatory	No conversion during the year
Domestic preference shares										
Preference shares in RMB	2016-09-02	Equity	3.90%	RMB100/share	450,000,000	45,000	45,000	No maturity date	Mandatory	No conversion during the year
					Total		59,982			
					Less: Issuance fees		(106)			
					Carrying amount		59,876			

34.1.2 *Main clauses*

Offshore preference shares

(a) Dividend

The offshore preference shares will accrue dividends on their issue price at the relevant dividend rate below:

(1) From and including the issue date to but excluding the first reset date, at the rate of 5.00% per annum; and

(2) The dividend rate will be re-priced every five years thereafter with reference to the five-year US treasury bonds yield plus a fixed premium of 3.344%. As authorised by the shareholders' annual general meeting, the Board of Directors has the sole discretion to declare and distribute dividends on offshore preference shares.

The dividend for offshore preference shares is non-cumulative. Where the Bank determines to cancel the dividend for offshore preference shares in whole or in part, the omitted dividend will not be carried forward and claimed in the future period. After receiving dividends at the agreed dividend rate, offshore preference shareholders of the Bank will not participate in the distribution of residual profits with ordinary shareholders. Domestic preference shares issued by the Bank have the same dividend distribution order as the offshore preference shares.

(b) Conditions to distribution of dividends

The Bank could pay dividends while the Bank still has distributable after-tax profit after making up previous years' losses, contributing to the statutory reserve and making general provisions, and the Bank's capital adequacy ratio meets regulatory requirements. Offshore preference shareholders of the Bank are senior to the ordinary shareholders on the right to dividends.

Subject to a resolution to be passed at a shareholders' general meeting of the Bank on each such occasion, the Bank may elect to cancel (in whole or in part) any dividend. The Bank shall not distribute any dividends to its ordinary shareholders before it declares such dividends to preference shareholders for the relevant periods.

34 OTHER EQUITY INSTRUMENTS *(Continued)*

34.1 Preference shares *(Continued)*

34.1.2 Main clauses *(Continued)*

Offshore preference shares (Continued)

(c) Mandatory conversion trigger events

Upon occurrence of the triggering events as stipulated by the offering documents and subject to regulatory approval, offshore preference share shall be mandatorily converted into ordinary H Shares of the Bank (as converted into Hong Kong dollars at the fixed exchange rate of USD1.00 to HKD7.7555), partially or entirely. The initial mandatory convertible price is HKD6.51 per share. To balance the interest between preference shareholders and ordinary shareholders, the mandatory conversion price of the preference shares will be cumulatively adjusted in sequence where certain events occur including issuances of bonus shares, capitalisation of reserves, new issuances of ordinary shares at a price lower than the market price (excluding equity increases due to exercise of convertible financing instruments that can be converted into ordinary shares) and rights issues, subject to terms and formulas provided for in the offering documents. Appropriation of dividends to ordinary shareholders is not trigger event for price adjustment.

(d) Order of distribution and liquidation method

On winding-up of the Bank, distribution to offshore preference shareholders is made after all debts of the Bank (including subordinated debts) and obligations that are issued or guaranteed by the Bank and specifically stated to be distributed prior to the offshore preference shares; all offshore preference shareholders are ranked the same in the distribution sequence without priority among them and have the same repayment sequence rights as holders of obligations with equivalent rights. In addition, distribution is made to offshore preference shareholders prior to ordinary shareholders.

On winding-up of the Bank, any remaining assets of the Bank shall, after the distributions in accordance with the terms and conditions of the offshore preference shares have been made, be applied to the claims of the offshore preference shareholders equally in all respects with the claims of holders of any parity obligations (which term, for the avoidance of doubt, includes the domestic preference shares and any other preference shares of the Bank issued from time to time to investors outside the PRC) and in priority to the claims of the holders of ordinary shares.

The distribution amount obtained by the offshore preference shareholders shall be the total par value of the issued and outstanding preference shares plus dividends declared but not paid in the current period; if the distribution amount is insufficient, domestic and offshore preference shareholders will share the distribution amount on a proportional basis.

(e) Redemption

The offshore preference shares are perpetual and have no maturity date. The Bank may, subject to obtaining CBIRC approval and in compliance with the redemption preconditions, redeem all or some of the offshore preference shares on 29 July 2020 and on any dividend payment date thereafter. The redemption period ends at the date when shares are fully converted or redeemed.

Domestic preference shares

(a) Dividend

The domestic preference shares will accrue dividends on their issue price at the relevant dividend rate below:

(1) From and including the issue date to but excluding the first reset date, at the rate of 3.90% per annum; and

(2) The dividend rate will be re-priced every five years thereafter with reference to the arithmetic average value (rounding off to 0.01%) of five-year Chinese treasury bonds yield at the date which is 20 transaction days before the reset date (excluding the date) plus a fixed premium of 1.37%. As authorised by the shareholders' annual general meeting, the Board of Directors has the sole discretion to declare and distribute dividends on domestic preference shares.

34 OTHER EQUITY INSTRUMENTS *(Continued)*

34.1 Preference shares *(Continued)*

34.1.2 Main clauses *(Continued)*

Domestic preference shares (Continued)

(a) Dividend *(Continued)*

The dividend for domestic preference shares is non-cumulative. Where the Bank determines to cancel the dividend for domestic preference shares in whole or in part, the omitted dividend will not be carried forward and claimed in the future period. After receiving dividends at the agreed dividend rate, domestic preference shareholders of the Bank will not participate in the distribution of residual profits with ordinary shareholders. Domestic preference shares issued by the Bank have the same dividend distribution order as the offshore preference shares.

(b) Conditions to distribution of dividends

The Bank could pay dividends while the Bank still has distributable after-tax profit after making up previous years' losses, contributing to the statutory reserve and making general provisions, and the Bank's capital adequacy ratio meets regulatory requirements. Domestic preference shareholders of the Bank are senior to the ordinary shareholders on the right to dividends.

Subject to a resolution to be passed at a shareholders' general meeting of the Bank on each such occasion, the Bank may elect to cancel (in whole or in part) any preference share dividend. The Bank shall not distribute any dividends to its ordinary shareholders before it declares such dividends to preference shareholders for the relevant periods.

(c) Mandatory conversion trigger events

Upon occurrence of the triggering events as stipulated by the offering documents and subject to regulatory approval, domestic preference shares shall be mandatorily converted into ordinary A Shares of the Bank, partially or entirely. The initial mandatory conversion price is RMB6.25 per share. To balance the interest between preference shareholders and ordinary shareholders, the mandatory conversion price of the preference shares will be cumulatively adjusted in sequence where certain events occur including issuances of bonus shares, capitalisation of reserves, new issuances of ordinary shares at a price lower than the market price (excluding equity increased due to exercise of convertible financing instruments that can be converted into ordinary shares) and rights issues, subject to terms and formulas provided for in the offering documents. Appropriation of dividends to ordinary shareholders is not trigger event for price adjustment.

(d) Order of distribution and liquidation method

On winding-up of the Bank, distribution to domestic preference shareholders is made after all debts of the Bank (including subordinated debts) and obligations that are issued or guaranteed by the Bank and specifically stated to be distributed prior to the domestic preference shares; all domestic preference shareholders are ranked at the same in the distribution sequence without priority among them and have the same repayment sequence rights as holders of obligations with equivalent rights. In addition, distribution is made to domestic preference shareholders prior to ordinary shareholders.

On winding-up of the Bank, any remaining assets of the Bank shall, after the distributions in accordance with the terms and conditions of the domestic preference shares have been made, be applied to the claims of the domestic preference shareholders equally in all respects with the claims of holders of any parity obligations (which term, for the avoidance of doubt, includes the domestic preference shares and any other preference shares of the Bank issued from time to time to investors outside the PRC) and in priority to the claims of the holders of ordinary shares.

The distribution amount obtained by the domestic preference shareholders shall be the total par value of the issued and outstanding preference shares plus dividends declared but not paid in the current period; if the distribution amount is insufficient, domestic and offshore preference shareholders will share the distribution amount on a proportional basis.

34 OTHER EQUITY INSTRUMENTS *(Continued)*

34.1 Preference shares *(Continued)*

34.1.2 ***Main clauses*** *(Continued)*

Domestic preference shares (Continued)

(e) Redemption

The domestic preference shares are perpetual and have no maturity date. The Bank may, subject to obtaining CBIRC approval and in compliance with the redemption preconditions, redeem all or some of the domestic preference shares on 2 September 2021 and on any preference share dividend payment date thereafter. The redemption period ends at the date when shares are fully converted or redeemed.

34.1.3 ***Movements of preference shares issued***

	As at 1 January 2019	Movements Additions	Decreases	As at 31 December 2019
Offshore preference shares				
Amount (shares)	122,500,000	–	–	**122,500,000**
In RMB (millions)	14,924	–	–	**14,924**
Domestic preference shares				
Amount (shares)	450,000,000	–	–	**450,000,000**
In RMB (millions)	44,952	–	–	**44,952**

34.2 Perpetual bonds

34.2.1 ***Perpetual bonds outstanding at the end of the period***

	Issue date	Accounting classification	Original interest rate	Issue price	Amount in shares	In original currency (in millions)	In RMB (in millions)	Maturity
Perpetual bonds in RMB	18 September 2019	Equity	4.20%	RMB100/bond	400,000,000	40,000	40,000	No fixed maturity date
				Total			40,000	
				Less: Issue fees			(6)	
				Carrying amount			39,994	

34.2.2 ***Main clauses***

(1) Principal amount

The principal amount is RMB40 billion.

(2) Maturity date

The perpetual bonds will continue to be outstanding so long as the Bank's business continues to operate.

(3) Coupon rate

The coupon rate of the perpetual bonds will be adjusted every 5 years from the settlement date of issuance. During each coupon rate adjustment period, the interest payments will be calculated at the same coupon rate. The coupon rate at the time of issuance will be determined by book building and centralised allocation. The interest rate of the perpetual bonds does not contain any interest rate step-up mechanism or any other redemption incentives.

34 OTHER EQUITY INSTRUMENTS *(Continued)*

34.2 Perpetual bonds *(Continued)*

34.2.2 ***Main clauses*** *(Continued)*

(3) Coupon rate (Continued)

The coupon rate is determined by a benchmark rate plus a fixed spread. The benchmark rate is the arithmetic average of the yields to maturity (rounded up to 0.01%) of 5 (exclusive) trading days prior to the announcement date of the subscription agreement, as indicated by the applicable ChinaBond Government Bond Yield Curve for five-year products published on www.ChinaBond.com.cn (or other websites approved by the China Central Depository & Clearing Co., Ltd.). The fixed spread is the difference between the coupon rate and the benchmark rate as determined at the time of issuance. The fixed spread will not be adjusted once determined.

(4) Conditional redemption rights of the Bank

The Bank has conditional redemption rights. After five years from the issuance of the perpetual bonds, the Bank may redeem the perpetual bonds in whole or in part on each distribution payment date (including the fifth distribution payment date since the issuance). If, after the issuance, the perpetual bonds no longer qualify as Additional Tier 1 Capital as a result of an unforeseeable change or amendment to relevant provisions of supervisory regulations, the Bank may redeem the whole but not part of the perpetual bonds.

(5) Subordination

The claims in respect of the perpetual bonds are subordinated to the claims of depositors, general creditors, and subordinated indebtedness that rank senior to the perpetual bonds; and will rank in priority to all classes of equity 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 perpetual bonds. If subsequent amendments to the PRC Enterprise Bankruptcy Law or relevant regulations are applicable to the Bank, such relevant laws and regulations shall prevail.

(6) Write-down/Write-off clauses

Upon the occurrence of Additional Tier 1 Capital Trigger Event, namely, the Bank's Core Tier 1 Capital Adequacy Ratio having fallen to 5.125% (or below), the Bank has the right, subject to the approval of the China Banking and Insurance Regulatory Commission but without the need for the consent of the bondholders, to write down whole or part of the aggregate amount of the perpetual bonds then issued and outstanding, in order to restore the Core Tier 1 Capital Adequacy Ratio to above 5.125%. In the case of a partial write-down, all of the perpetual bonds then issued and outstanding shall be written down on a pro rata basis, according to the outstanding par value, with all Additional Tier 1 Capital instruments with equivalent write-down clauses of the Bank. The perpetual bonds may be subject to write-down more than once, in order to restore the Core Tier 1 Capital Adequacy Ratio of the Bank to above 5.125%.

(7) Distribution payment

The Bank shall have the right to cancel, in whole or in part, distributions on the bonds and any such cancellation shall not constitute an event of default. When exercising such right, the Bank will take into full consideration the interest of the bondholders. The Bank may, at its sole discretion, use the proceeds from the cancelled distributions to meet other obligations as they fall due. Cancellation of any distributions on the bonds, no matter in whole or in part, will not impose any other restriction on the Bank, except in relation to dividend distributions to ordinary shares. Any cancellation of any distribution on the bonds, no matter in whole or in part, will require the deliberation and approval of the general shareholders meeting, and the Bank shall give notice to the investors on such cancellation in a timely manner.

The distributions on the perpetual bonds are non-cumulative, namely, upon cancellation, any amount of distribution unpaid to the holders of the perpetual bonds in the applicable period will not accumulate or compound to the subsequent distribution period thereafter.

(All amounts expressed in millions of RMB unless otherwise stated)

34 OTHER EQUITY INSTRUMENTS *(Continued)*

34.2 Perpetual bonds *(Continued)*

34.2.2 Main clauses *(Continued)*

(8) Put option

Investors have no right to redeem their subscription from the Bank.

The net proceeds from the Bank's issuance of the above bonds, after deducting offering related expenses, will be used to replenish the Additional Tier 1 Capital of the Bank.

34.3 Interests attributable to holders of other equity instruments

	As at 31 December 2019	As at 31 December 2018
Total equity attributable to equity holders of the parent company	**793,247**	698,405
Equity attributable to ordinary shareholders of the parent company	**693,377**	638,529
Equity attributable to preference shareholders of the parent company	**59,876**	59,876
Equity attributable to perpetual bond holders of the parent company	**39,994**	–
Including: Net profit attributable to preference shareholders	***2,671***	*2,618*
Dividends paid to preference shareholders during the year	***2,671***	*2,618*
Total equity attributable to non-controlling interests	**7,665**	6,903
Equity attributable to non-controlling interests of ordinary shares	**7,665**	6,903

35 RESERVES AND RETAINED EARNINGS

Pursuant to the relevant PRC regulations, the appropriation of profits to the statutory general reserve, the discretionary reserve and the distribution of dividends in each year are based on the recommendations of the Directors and are subject to the resolutions to be passed at the General Meeting.

Pursuant to the relevant PRC regulations, the bank is required to appropriate 10% of its net profit for the year to the undistributable statutory surplus reserve until the reserve balance reaches 50% of its registered capital.

Pursuant to the relevant PRC banking regulations, the Bank is required to transfer a certain amount of its net income to the statutory general reserve through its profit appropriation. It is determined based on the overall unidentified loss exposure; normally no lower than 1.5% of the ending balance of risk assets. The statutory general reserve is an integral part of shareholders' equity but not subject to dividend distribution. Such statutory general reserve is recognised in the statement of financial position upon approval by the shareholders at the Annual General Meeting. Regulatory reserve of the Hong Kong branch required by the Hong Kong Monetary Authority is also included in above statutory general reserve.

Since 1 July 2012, pursuant to *Administrative Measures for the Provisioning of Financial Enterprises* (Cai Jin [2012] No. 20), the Bank made general reserve for the risk assets as defined by the policy. The Bank's subsidiaries and oversea branches, if required by local regulation requirements, also need to make such accrual for risk assets.

In accordance with the relevant PRC legislation, upon the approval by shareholders at the General Meeting, discretionary reserve can be appropriated following the appropriation of statutory reserve from the distributable profit of the Bank and its domestic subsidiaries.

(All amounts expressed in millions of RMB unless otherwise stated)

35 RESERVES AND RETAINED EARNINGS *(Continued)*

The 2018 Annual General Meeting of Shareholders, held on 21 June 2019, considered and adopted the 2018 profit distribution scheme, which stipulates the follows:

	Year ended 31 December	
	2019	2018
Statutory reserve	**–**	6,833
Statutory general reserve	**2,738**	8,705
Discretionary reserve	**–**	–
Total	**2,738**	15,538

During the year ended 31 December 2019, the Group and the Bank transferred RMB3,286 million (2018: RMB9,811 million) and RMB2,738 million (2018: RMB8,705 million) respectively to the General Reserve pursuant to the regulatory requirements in the PRC and overseas jurisdictions. Of this amount, RMB2,738 million (2018: RMB8,705 million) related to general reserve proposed for the Bank for the year ended 31 December 2018 was approved in the 2018 Annual General Meeting of Shareholders dated 21 June 2019.

Revaluation reserve

The movements of revaluation reserve are set out below:

As at 31 December 2018	**1,397**
Changes in fair value recorded in equity	**4,681**
Changes in fair value reclassified from equity to profit or loss	**(1,031)**
Income tax relating to components of other comprehensive income	**(1,637)**
Transferred from other comprehensive income	**11**
As at 31 December 2019	**3,421**
As at 31 December 2017	(2,365)
Impact of adoption of IFRS 9 on opening balance	1,891
Opening balance under IFRS 9 (restated)	(474)
Changes in fair value recorded in equity	2,719
Changes in fair value reclassified from equity to profit or loss	(228)
Income tax relating to components of other comprehensive income	(624)
Transferred from other comprehensive income	4
As at 31 December 2018	1,397

(All amounts expressed in millions of RMB unless otherwise stated)

35 RESERVES AND RETAINED EARNINGS *(Continued)*

Retained earnings

The movements of retained earnings are set out below:

As at 31 December 2018	**129,161**
Impact from adoption of IFRS 16	**(616)**
Opening balance under IFRS 16 (restated)	**128,545**
Profit for the year	**77,281**
Appropriation to statutory reserve	**(381)**
Appropriation to general reserve	**(3,286)**
Appropriation to discretionary reserve	**(57)**
Dividends payable to ordinary shareholders	**(22,279)**
Dividends payable to preference shareholders	**(2,671)**
Others	**(11)**
As at 31 December 2019	**177,141**
As at 31 December 2017	124,514
Impact from adoption of IFRS 9	(28,257)
Opening balance under IFRS 9 (restated)	96,257
Profit for the year	73,630
Appropriation to statutory reserve	(7,055)
Appropriation to general reserve	(9,811)
Appropriation to discretionary reserve	(29)
Dividends payable to ordinary shareholders	(21,209)
Dividends payable to preference shareholders	(2,618)
Others	(4)
As at 31 December 2018	129,161

36 DIVIDENDS

	Year ended 31 December	
	2019	2018
Dividends to ordinary shareholders of the Bank	**22,279**	21,209
Dividends to preference shareholders of the Bank	**2,671**	2,618

Under PRC Company Law and the Bank's Articles of Association, the net profit after tax as reported in the PRC statutory financial statements can only be distributed as dividends after allowances for the following:

(1) Making up cumulative losses from prior years, if any;

(2) Allocations to the non-distributable statutory reserve of 10% of the net profit of the Bank as determined under the relevant PRC accounting standards;

(3) Allocations to statutory general reserve;

(4) Allocations to the discretionary reserve upon approval by the Annual General Meeting. These funds form part of the shareholders' equity.

The cash dividends are recognised in the consolidated statement of financial position upon approval by the shareholders at Annual General Meeting.

(All amounts expressed in millions of RMB unless otherwise stated)

36 DIVIDENDS *(Continued)*

Pursuant to the approval by the Annual General Meeting of Shareholders on 21 June 2019, the Bank appropriated RMB2,738 million to the statutory general reserve. It was also resolved that a cash dividend of RMB0.30 (before tax) for each ordinary share, with total amount of RMB22,279 million, calculated based on 74,263 million shares outstanding (the par value per share is RMB1) as at 31 December 2018, would be distributed to ordinary shareholders.

Pursuant to the approval by the Board meeting on 29 April 2019, the Bank appropriated overseas preference dividends on 29 July 2019 with a dividend yield of 5% (the actual dividend yield obtained by the preference shareholders) with total amount of USD136 million. Since 7 September 2019 is not a working day, the dividend payment day defers to 9 September 2019. The Bank will appropriate domestic preference dividends on 9 September 2019 with a dividend yield of 3.9% (the actual dividend yield obtained by the preference shareholders), with total amount of RMB1,755 million.

On 27 March 2020, the Board of Directors of the Bank proposed to appropriate RMB7,075 million to the statutory reserve and RMB4,454 million to the statutory general reserve. A cash dividend of RMB0.315 (before tax) for each share, totalling RMB23,393 million, calculated based on the total number of shares outstanding of 74,263 million shares (RMB1 per share) as at 31 December 2019 was also proposed. The proposal will be subject to the approval by the Shareholders' Meeting of the Bank.

37 FINANCIAL GUARANTEES AND CREDIT-RELATED COMMITMENTS, OTHER COMMITMENTS AND CONTINGENT LIABILITIES

Financial guarantees and credit-related commitments

The following tables provide the contractual amounts of the Group's financial guarantees and credit-related commitments which the Group has committed to its customers:

	As at 31 December 2019	As at 31 December 2018
Letters of guarantee	**268,812**	268,097
Letters of credit commitments	**139,948**	141,137
Acceptance bills	**271,507**	228,550
Credit card commitments	**736,039**	759,994
Loan commitments		
– Under 1 year	**20,459**	12,709
– 1 year and above	**35,405**	45,731
	1,472,170	1,456,218

Capital expenditure commitments

	As at 31 December 2019	As at 31 December 2018
Contracted but not provided for	**60,310**	66,968

Operating lease commitments

Where the Group is the lessee, the future minimum lease payments on buildings and equipment under non-cancellable operating leases are as follows:

	As at 31 December 2018
Within 1 year (inclusive)	3,918
Beyond 1 year but no more than 2 years (inclusive)	2,772
Beyond 2 years but no more than 3 years (inclusive)	1,908
Beyond 3 years but no more than 5 years (inclusive)	2,215
More than 5 years	1,532
	12,345

(All amounts expressed in millions of RMB unless otherwise stated)

37 FINANCIAL GUARANTEES AND CREDIT-RELATED COMMITMENTS, OTHER COMMITMENTS AND CONTINGENT LIABILITIES *(Continued)*

Operating lease commitments *(Continued)*

The Group acts as lessor in operating leases principally through aircraft and vessels leasing undertaken by its subsidiaries. The future minimum lease receivables on certain aircraft and vessel under irrevocable operating leases are as follows:

	As at 31 December 2019	As at 31 December 2018
Within 1 year (inclusive)	**13,496**	11,204
Beyond 1 year but no more than 2 years (inclusive)	**12,818**	11,045
Beyond 2 years but no more than 3 years (inclusive)	**12,176**	10,768
Beyond 3 years but no more than 5 years (inclusive)	**22,920**	20,983
More than 5 years	**42,024**	59,827
	103,434	113,827

Commitments on security underwriting and bond acceptance

The Group is entrusted by the Ministry of Finance ('MOF') to underwrite certain Certificated Bonds and Savings Bonds. The investors of Certificated Bonds and Savings Bonds have early redemption right while the Group has the obligation to buy back those Certificated Bonds and Savings Bonds. The redemption price is the principal value of the Certificated Bonds or Savings Bonds plus unpaid interest till redemption date. As at 31 December 2019, the principal value of the certain Certificated Bonds and Savings Bonds that the Group had the obligation to buy back amounted to RMB83,777 million (31 December 2018: RMB74,423 million). The MOF will not provide funding for the early redemption of these Certificated Bonds and Savings Bonds on a back-to-back basis but will pay interest and principal at maturity. The Group expects the amount of redemption before the maturity dates of these bonds through the Group will not be material.

The original maturities of these bonds vary from 1 to 5 years.

As at 31 December 2019, the Group had no announced but unfulfilled irrevocable commitment on security underwriting (31 December 2018: Nil).

Legal proceedings

The Group has been involved as defendants in certain lawsuits arising from its normal business operations. Management of the Group believes, based on legal advice, that the final result of these lawsuits will not have a material impact on the financial position or operations of the Group. Provision for litigation losses as advised by in-house or external legal professionals is disclosed in Note 32. The total outstanding claims against the Group (defendant) by a number of third parties at the end of the year are summarised as follows:

	As at 31 December 2019	As at 31 December 2018
Outstanding litigations	**5,011**	3,242
Provision for outstanding litigation (Note 32)	**1,029**	982

(All amounts expressed in millions of RMB unless otherwise stated)

38 COLLATERALS

(1) Assets pledged

The Group uses part of its assets as collaterals for interbank repurchase arrangements and other liabilities-related business. All of these arrangements mature within 12 months from the date they take effect. The carrying amount of these collaterals and the balance of operations related are listed below:

	Pledged assets		Associated liabilities	
	As at 31 December 2019	As at 31 December 2018	**As at 31 December 2019**	As at 31 December 2018
Investment securities	**468,085**	697,288	**387,547**	581,070
Bills	**78,041**	32,308	**78,041**	32,308
Total	**546,126**	729,596	**465,588**	613,378

Financial assets sold under repurchase agreements included certain transactions under which, title of the pledged securities has been transferred to counterparties. These transactions have been disclosed in Note 43 transfers of financial assets.

(2) Collateral accepted

The Group conducts resale agreements under usual and customary terms of placements, and holds collateral for these transactions. As at 31 December 2019, the Group did not hold any collateral for resale agreements which was permitted to sell or repledge in the absence of default for the transactions (31 December 2018: the fair value of such collaterals amounted to RMB2,758 million). All pledges are conducted under standard and normal business terms. As at 31 December 2019 and 31 December 2018, the Group did not sell or re-pledge any collaterals received.

39 OTHER COMPREHENSIVE INCOME

	Year ended 31 December 2019		
	Before tax amount	Tax effect	Net of tax amount
Other comprehensive income			
Loans and advances to customers – carried at FVOCI	(391)	(322)	(713)
Amounts recorded in equity	*113*	*(448)*	*(335)*
Amounts reclassified to losses/(gains) in the current year	*(504)*	*126*	*(378)*
Debt investments at FVOCI	4,807	(1,487)	3,320
Amounts recorded in equity	*5,334*	*(1,619)*	*3,715*
Amounts reclassified to losses/(gains) in the current year	*(527)*	*132*	*(395)*
Effective portion of gains or losses on hedging instruments in cash flow hedges	(14)	5	(9)
Amounts recorded in equity	*(210)*	*54*	*(156)*
Amounts reclassified to losses/(gains) in the current year	*196*	*(49)*	*147*
Translation difference on foreign operations	1,141	–	1,141
Changes in fair value of equity investments designated at FVOCI	(748)	188	(560)
Changes in fair value attributable to changes in the credit risk of financial liabilities designated at FVPL	25	–	25
Actuarial gains on pension benefits	(20)	–	(20)
Others	18	–	18
Other comprehensive income for the year	4,818	(1,616)	3,202

(All amounts expressed in millions of RMB unless otherwise stated)

39 OTHER COMPREHENSIVE INCOME *(Continued)*

	Year ended 31 December 2018		
	Before tax amount	Tax effect	Net of tax amount
Other comprehensive income			
Loans and advances to customers – carried at FVOCI	241	(139)	102
Amounts recorded in equity	*241*	*(139)*	*102*
Amounts reclassified to losses in the current year	–	–	–
Debt investments at FVOCI	2,367	(452)	1,915
Amounts recorded in equity	*2,595*	*(509)*	*2,086*
Amounts reclassified to losses in the current year	*(228)*	*57*	*(171)*
Effective portion of gains or losses on hedging instruments in cash flow hedges	23	(6)	17
Changes in fair value recorded in equity	*147*	*(37)*	*110*
Changes in fair value reclassified from equity to profit or loss	*(124)*	*31*	*(93)*
Translation difference on foreign operations	1,998	–	1,998
Changes in fair value of equity instruments designated at FVOCI	81	(20)	61
Changes in fair value attributable to changes in the credit risk of financial liabilities designated at FVPL	(14)	–	(14)
Actuarial gains on pension benefits	(25)	–	(25)
Others	18	–	18
Other comprehensive income for the year	4,689	(617)	4,072

40 NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

Analysis of the balance of cash and cash equivalents

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise the following balances with original maturities of less than or equal to 90 days used for the purpose of meeting short-term cash commitments:

	As at 31 December 2019	As at 31 December 2018
Cash and balances with central banks	**85,246**	123,665
Due from and placements with banks and other financial institutions	**82,489**	119,827
	167,735	243,492

41 CONSOLIDATED STRUCTURED ENTITIES

Structured entities consolidated by the Group include certain trust investment plans, funds and securitization products issued, managed and invested by the Group. The Group controls these entities because the Group has power over, is exposed to, or has right to, variable returns from its involvement with these entities and has the ability to use its power over these entities to affect the amount of the Group's returns. As at 31 December 2019, the consolidated structured entities sponsored and managed by the Group amounted to 6,147 million, and the consolidated structured entities held by Group amounted to 19,846 million.

As at 31 December 2018, wealth management products where the Group provided financial guarantee amounted to 138,366 million, which have been matured and paid during 2019.

(All amounts expressed in millions of RMB unless otherwise stated)

42 UNCONSOLIDATED STRUCTURED ENTITIES

The Group has been involved in other structured entities through investments in structured entities or acting as sponsors of structured entities that provide specialised investment opportunities to investors. These structured entities generally finance the purchase of assets by issuing units of the products. The Group does not control these structured entities and therefore, these structured entities are not consolidated.

As at 31 December 2019, those structured entities sponsored by the Group consist primarily of funds, trusts, asset management products, wealth management products with principals not guaranteed by the Group and securitization products. The Group earns commission income by providing management services to the investors of these structured entities. In addition, the Group is also involved in certain structured entities sponsored by the Group or third parties through direct investments. These investments are recognised as financial investments at fair value through profit or loss, financial investments at fair value through other comprehensive income, and financial investments at amortised cost.

As at 31 December 2019 and 31 December 2018, amount of unconsolidated structured entities sponsored by the Group are set out as below:

	Sponsored amount		
	As at 31 December 2019	As at 31 December 2018	Type of income
Funds	**357,568**	242,502	Commission income
Trusts and asset management products	**893,739**	1,054,073	Commission income
Wealth management products ("WMPs")	**1,003,226**	960,003	Commission income
Securitization products	**295**	–	Commission income
Total	**2,254,828**	2,256,578	

For the year ended 31 December 2019, the Group's commission income from providing service to the investors of the structured entities managed by the Group was RMB3,948 million (For the year ended 31 December 2018: RMB2,936 million), and interest income from placements and repurchase transactions with those unconsolidated WMPs was RMB1,204 million (For the year ended 31 December 2018: RMB1,612 million).

As at 31 December 2019 and 31 December 2018, the carrying amount of interests in unconsolidated structured entities held by the Group through investment was set out as follows:

	As at 31 December 2019				
	Carrying amount				
	Financial investments at FVPL	**Financial investments at FVOCI**	**Financial investments at amortised cost**	**Maximum exposure to loss**	**Type of income**
Funds	**160,522**	**–**	**–**	**160,522**	**Net gains arising from trading activities**
Trusts and asset management products	**8,207**	**–**	**139,302**	**147,509**	**Net interest income, net gains arising from trading activities**
Wealth management products	**320**	**–**	**–**	**320**	**Net gains arising from trading activities**
Limited partnerships	**798**	**584**	**–**	**1,382**	**Net gains arising from trading activities, net gains arising from financial investments**
Securitization products	**–**	**–**	**15**	**15**	**Net interest income**
Total	**169,847**	**584**	**139,317**	**309,748**	

(All amounts expressed in millions of RMB unless otherwise stated)

42 UNCONSOLIDATED STRUCTURED ENTITIES *(Continued)*

The information of total size of the unconsolidated structured entities listed above is not readily available from the public domain.

	As at 31 December 2018			
	Carrying amount			
	Financial investments at FVPL	Financial investments at amortised cost	Maximum exposure to loss	Type of income
Funds	180,547	–	180,547	Net gains arising from trading activities
Trusts and asset management products	4,906	200,861	205,767	Net interest income, net gains arising from trading activities
Wealth management products	2,101	–	2,101	Net gains arising from trading activities
Total	187,554	200,861	388,415	

43 TRANSFERS OF FINANCIAL ASSETS

43.1 Financial assets sold under repurchase agreements

Sales and repurchase agreements are transactions in which the Group sells a security and simultaneously agrees to repurchase it (or an asset that is substantially the same) at a fixed price on a future date. Since the repurchase prices are fixed, the Group is still exposed to substantially all the credit risks and market risks and rewards of those securities sold. These securities, which the Group does not have the ability to use during the term of the arrangements, are not derecognised from the financial statements but regarded as "collateral" for the secured lending from these because the Group retains substantially all the risks and rewards of these securities. In addition, the Group recognises a financial liability for cash received.

As at 31 December 2019 and 31 December 2018, the Group entered into repurchase agreements with certain counterparties. The proceeds from selling such securities are presented as "financial assets sold under repurchase agreements" (Note 27).

The following table provides a summary of carrying amounts related to the transferred financial assets that are not derecognised and the associated liabilities:

	Collaterals		**Associated liabilities**	
	As at 31 December 2019	As at 31 December 2018	**As at 31 December 2019**	As at 31 December 2018
Investment securities	**3,949**	4,094	**9,828**	3,797

43.2 Securities lending transactions

Transferred financial assets that do not qualify for de-recognition mainly include debt securities lent to counterparties under securities lending agreements. The counterparties are allowed to sell or repledge those securities lent under agreements to repurchase in the absence of default by the Group, but has an obligation to return the securities at the maturity of the contract. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them. As at 31 December 2019, the carrying value of debt securities lent to counterparties was RMB6,620 million (31 December 2018: RMB3,810 million).

(All amounts expressed in millions of RMB unless otherwise stated)

43 TRANSFERS OF FINANCIAL ASSETS *(Continued)*

43.3 Asset securitisation

The Group enters into securitisation transactions in the normal course of business by which it transfers credit assets to structured entities which issue asset-backed securities to investors.

The Group may retain interests in the form of subordinated tranches which may give rise to the Group's continuing involvement in the transferred assets. Those financial assets are recognised on the statement of financial position to the extent of the Group's continuing involvement. The extent of the Group's continuing involvement is the extent to which the Group is exposed to changes in the value of the transferred assets.

As at 31 December 2019, loans with an original value of RMB55,702 million and carrying amount of RMB55,144 million (31 December 2018: RMB98,763 million and RMB93,777 million) have been securitised by the Group and the Bank.

As at 31 December 2019, the Group and the Bank retained their continued involvement in securitised credit assets by holding subordinated securities. The value of the assets that the Group and the Bank continued to recognise was RMB4,864 million (31 December 2018: RMB6,108 million).

43.4 Package disposal of impaired loans and advances to customers

The Group disposes impaired loans and advances to customers through transferring to third parties in the normal course of business. For the year ended 31 December 2019, the Group had transferred impaired loans and advances to customers with a gross carrying amount of RMB13,132 million (31 December 2018: RMB8,971 million) and collected cash totalling RMB4,733 million (31 December 2018: RMB3,448 million) from the transfer. The difference between the gross carrying amount and the cash collected had been written off. The Group de-recognised the impaired loans and advances to customers from the Group's financial statements at the time of disposal.

44 RELATED PARTY TRANSACTIONS

(a) Transactions with the MOF

As at 31 December 2019, the MOF was holding 17,732 million (31 December 2018: 19,703 million) shares of Bank of Communications Co., Ltd. which represented 23.88% (31 December 2018: 26.53%) of the total share capital.

The MOF is a Chinese government ministry, primarily responsible for managing state fiscal revenue and expenditures, and establishing and enforcing taxation policies. The Group enters into banking transactions with the MOF under normal course of business and they mainly include the purchase and redemption of financial investments issued by the MOF and the deposits from the MOF.

The related party transaction volumes, outstanding balances at the end of the year and the revenue from related party transactions for the year are listed below:

	As at 31 December 2019	As at 31 December 2018
Bonds issued by MOF	**647,402**	524,736
Accrued interest	**9,515**	8,017

	Year ended 31 December	
	2019	2018
Interest income	**18,935**	16,040
Interest expense	**–**	92

(All amounts expressed in millions of RMB unless otherwise stated)

44 RELATED PARTY TRANSACTIONS *(Continued)*

(a) Transactions with the MOF *(Continued)*

The interest rates of the transactions between the Group and MOF are summarised below:

	Year ended 31 December	
	2019	2018
	%	%
Bonds issued by MOF	**0.13~5.41**	1.927~5.05
Due to customers	**Not applicable**	3.71

(b) Transactions with National Council for Social Security Fund

As at 31 December 2019, National Council for Social Security Fund was holding 12,909 million (31 December 2018: 10,923 million) shares of Bank of Communications Co., Ltd. which represented 17.38% (31 December 2018: 14.71%) of the total share capital. The Group enters into transactions with National Council for Social Security Fund in the normal course of business and they mainly include deposits which are carried out under normal commercial terms and paid at market rates.

Details of transaction volumes and outstanding balances are summarised below:

	As at 31 December 2019	As at 31 December 2018
Due to customers	**70,350**	26,650
Accrued interest	**964**	359

	Year ended 31 December	
	2019	2018
Interest expense	**1,031**	1,355

The interest rates of the transactions between the Group and the National Council for Social Security Fund are summarised below:

	Year ended 31 December	
	2019	2018
	%	%
Due to customers	**3.85~6.10**	3.85~6.10

(c) Transactions with the Hong Kong and Shanghai Banking Corporation Limited and its subsidiaries ("HSBC")

As at 31 December 2019, HSBC was holding 13,886 million (31 December 2018: 13,886 million) shares of the Bank of Communications Co., Ltd. which represented 18.70% (31 December 2018: 18.70%) of the total share capital. Transactions between the Group and HSBC are carried out under normal commercial terms and paid at market rates.

(All amounts expressed in millions of RMB unless otherwise stated)

44 RELATED PARTY TRANSACTIONS *(Continued)*

(c) Transactions with the Hong Kong and Shanghai Banking Corporation Limited and its subsidiaries ("HSBC") *(Continued)*

Details of transaction volumes and outstanding balances are summarised below:

	As at 31 December 2019	As at 31 December 2018
On-balance sheet items		
Due from banks and other financial institutions	**1,302**	2,250
Derivative financial assets	**798**	1,592
Financial investments at FVPL	**1,323**	1,314
Financial investments at amortised cost	**230**	230
Financial investments at FVOCI	**4,634**	4,410
Due to banks and other financial institutions	**1,644**	1,289
Placements from banks and other financial institutions	**6,107**	13,298
Financial liabilities at FVPL	**2,424**	2,832
Certificates of deposit issued	**22,987**	48,776
Derivative financial liabilities	**979**	760
Financial assets sold under repurchase agreements	**2,622**	1,807
Off-balance sheet items		
Notional principal of derivative financial instruments	**161,086**	138,544

	Year ended 31 December	
	2019	2018
Net losses from trading activities	**(305)**	(984)
Interest income	**231**	162
Interest expense	**1,535**	1,385

The interest rates of the transactions between the Group and HSBC are summarised below:

	Year ended 31 December	
	2019	2018
	%	%
Due from banks and other financial institutions	**0.01~0.35**	0.01~2.84
Placements with banks and other financial institutions	**1.39~2.85**	0.20~3.55
Financial investments at FVPL	**3.30~4.13**	3.30~6.68
Financial investments at amortised cost	**3.26~4.74**	3.26~4.74
Financial investments at FVOCI	**1.50~4.75**	1.50~5.01
Financial assets purchased under resale agreements	**1.38~3.10**	2.73~5.60
Due to banks and other financial institutions	**0.01~3.80**	0.01~6.10
Placements from banks and other financial institutions	**(0.24)~3.46**	(0.01)~4.75
Financial liabilities at FVPL	**0.48~0.75**	0.47~1.00
Certificates of deposit issued	**1.40~3.30**	2.11~3.44
Financial assets sold under repurchase agreements	**0.02~2.80**	2.34~5.30

(All amounts expressed in millions of RMB unless otherwise stated)

44 RELATED PARTY TRANSACTIONS *(Continued)*

(d) Transactions with state-owned entities in PRC

The Group operates in an economic environment predominated by enterprises directly or indirectly owned and/or controlled by the Government through its authorities, affiliates or other organisations (collectively the "state-owned entities"). During the period, the Group entered into extensive banking transactions with these state-owned entities including, but not limited to, the provision of credit and guarantees, deposits, foreign exchange, derivatives transactions, agency business, underwriting and distribution of bonds issued by the Government as well as trading and redemption of securities issued by the Government.

Management considers that transactions with state-owned entities are activities conducted in the ordinary course of business, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and these state-owned entities are ultimately controlled or owned by the Government. The Group has also established pricing policies for products and services and such pricing policies do not depend on whether or not the customers are state-owned entities.

(e) Transactions with subsidiaries

The pricing of the transactions with subsidiaries is determined based on normal commercial banks. These transactions are eliminated on consolidation.

Details of transaction volumes and outstanding balances are summarised below:

The Bank	As at 31 December 2019	As at 31 December 2018
Due from banks and other financial institutions	**338**	484
Placements with banks and other financial institutions	**91,307**	74,791
Loans and advances to customers	**1,296**	7,298
Financial investments at FVPL	**1,915**	–
Financial investments at amortised cost	**2,266**	1,721
Financial investments at FVOCI	**13,055**	–
Derivative financial assets	**429**	366
Other assets	**137**	126
Due to banks and other financial institutions	**9,651**	19,904
Placements from banks and other financial institutions	**10,245**	10,255
Derivative financial liabilities	**543**	860
Due to customers	**3,544**	2,201
Debt securities issued	**51**	51
Other liabilities	**36**	31
Sale of financial investments at FVPL to subsidiaries	**10,327**	–
Sale of financial investments at FVOCI to subsidiaries	**28,312**	–

The Bank	Year ended 31 December 2019	2018
Interest income	**2,531**	2,291
Interest expense	**458**	603
Fee and commission income	**943**	1,063
Fee and commission expense	**97**	27
Other operating income	**562**	249
Other operating expense	**212**	174
Net gains arising from trading activities	**755**	201

(All amounts expressed in millions of RMB unless otherwise stated)

44 RELATED PARTY TRANSACTIONS *(Continued)*

(e) Transactions with subsidiaries *(Continued)*

The interest rates of the transactions between the Bank and its subsidiaries are summarised below:

The Bank	**Year ended 31 December**	
	2019	2018
	%	%
Due from banks and other financial institutions	**0.01~4.00**	0.01~4.70
Placements with banks and other financial institutions	**(0.10)~5.40**	0.03~5.45
Financial investments at FVPL	**2.63~4.38**	–
Financial investments at amortised cost	**0.76~4.70**	3.25~4.70
Financial investments at FVOCI	**1.00~4.38**	–
Loans and advances to customers	**2.18~3.97**	0.03~5.52
Due to banks and other financial institutions	**0.02~9.15**	0.01~5.50
Placements from banks and other financial institutions	**(0.10)~5.40**	(0.10)~5.45
Due to customers	**1.50~3.03**	0.01~4.16
Debt securities issued	**5.75**	5.75

(f) Transactions with directors and senior management

The Group enters into transactions, including loans and deposits with directors, senior management and controlled bodies corporate of connected entities with such directors and senior management under the normal course of business and they mainly include loans and deposits, which are carried out under commercial terms and paid at market rates.

Details of transaction volumes and outstanding balances are summarised below:

	As at 31 December 2019	As at 31 December 2018
Due to customers	**18**	8
Loans and advances to customers	**3**	4

Compensations of directors and senior management are disclosed in Note 13.

(g) Transactions with associates

The Group's investments in associates mainly include the investment in Jiangsu Changshu Rural Commercial Bank Co., Ltd. and Bank of Tibet Co., Ltd. Transactions between the Group and associates are carried out under normal commercial terms and paid at market rates.

Details of transaction volumes and outstanding balances are summarised below:

	As at 31 December 2019	As at 31 December 2018
On-balance sheet items		
Due from banks and other financial institutions	**–**	101
Due to banks and other financial institutions	**–**	10
Derivative financial assets	**4**	–
Placements with banks and other financial institutions	**52**	222
Derivative financial liabilities	**3**	–
Off-balance sheet items		
National principal of derivative financial instruments	**5,193**	–

(All amounts expressed in millions of RMB unless otherwise stated)

44 RELATED PARTY TRANSACTIONS *(Continued)*

(g) Transactions with associates *(Continued)*

	Year ended 31 December	
	2019	2018
Net gains from trading activities	**1**	–
Interest income	**10**	2
Interest expense	**2**	10

The interest rates of the transactions between the Group and associates are summarised below:

	Year ended 31 December	
	2019	2018
	%	%
Due from banks and other financial institutions	**0.35~3.88**	2.84~3.88
Placements with banks and other financial institutions	**0.75~2.65**	0.75
Financial assets purchased under resale agreements	**1.38~3.10**	2.66~2.75
Due to banks and other financial institutions	**0.01~5.50**	0.01~5.58

(h) Transactions with other related parties

Details of transaction volumes and outstanding balances are summarised below:

	As at 31 December 2019	As at 31 December 2018
Loans and advances to customers	**2,354**	4,337
Accrued interest	**1**	6
Financial investments at amortised cost	**200**	–
Accrued interest	**4**	–
Due to banks and other financial institutions	**1,851**	1,910
Accrued interest	**20**	18
Due to customers	**46,865**	42,094
Accrued interest	**1,253**	1,076

	Year ended 31 December	
	2019	2018
Interest income	**74**	218
Interest expense	**1,507**	1,265

The interest rates of the transactions between the Group and other related parties are summarised below:

	Year ended 31 December	
	2019	2018
	%	%
Loans and advances to customers	**0.30~6.31**	3.915~5.22
Financial investments at amortised cost	**3.19~3.78**	–
Deposits from banks and other financial institutions	**2.70~5.80**	0.35~5.80
Due to customers	**1.10~4.18**	1.10~4.88

45 SEGMENTAL ANALYSIS

The Group's senior management reviews the Group's operation by the particular economic areas in which the Group's branches and subsidiaries provide products or services. The Group's operating segments are decided based upon location of the assets, as the Group's branches and subsidiaries mainly serve local customers.

The reportable operating segments derive their revenue primarily from the commercial banking services provided to customers and investing activities, including deposits/loans, bills, trade finance, money market placements and takings and securities investments. The operating segments are:

(1) Northern China – including Beijing, Tianjin, Hebei Province, Shanxi Province and Inner Mongolia Autonomous Region;
(2) North Eastern China – including Liaoning Province, Jilin Province and Heilongjiang Province;
(3) Eastern China – including Shanghai (excluding Head Office), Jiangsu Province, Zhejiang Province, Anhui Province, Fujian Province, Jiangxi Province and Shandong Province;
(4) Central and Southern China – including Henan Province, Hunan Province, Hubei Province, Guangdong Province, Hainan Province and Guangxi Zhuang Autonomous Region;
(5) Western China – including Chongqing, Sichuan Province, Guizhou Province, Yunnan Province, Shaanxi Province, Gansu Province, Qinghai Province, Ningxia Autonomous Region and Xinjiang Uyghur Autonomous Region;
(6) Head Office;
(7) Overseas – including overseas subsidiaries and the following branches: Hong Kong, New York, Tokyo, Singapore, Seoul, Frankfurt, Macau, Ho Chi Minh City, San Francisco, Sydney, Taipei, London, Luxembourg, Brisbane, Paris, Rome, Brazil, Toronto, Melbourne, Prague and other overseas affiliates.

There were no changes in the reportable segments during the year.

The revenue from external parties reported to the senior management is measured in a manner consistent with that in the consolidated statement of profit or loss and other comprehensive income.

As the Group's major revenue is derived by interest and the senior management relies primarily on net interest income to assess the performance of the segment, the total interest income and expenses for all reportable segments will be presented on a net basis.

The basis on which the Group's senior management reviews the segment performance is profit before tax. Funds are ordinarily allocated between segments, resulting in funding cost transfers disclosed in inter-segment net interest income. Interest charged for these funds is based on the Group's cost of capital. There are no other material items of income or expenses between the segments.

(All amounts expressed in millions of RMB unless otherwise stated)

45 SEGMENTAL ANALYSIS *(Continued)*

Operating segment information

	Year ended 31 December 2019							
	Northern China	North Eastern China	Eastern China	Central and Southern China	Western China	Overseas	Head Office	Total
External interest income	29,574	8,829	85,922	50,550	24,236	33,580	134,762	367,453
External interest expense	(29,487)	(8,710)	(58,943)	(33,277)	(15,036)	(24,203)	(53,714)	(223,370)
Inter-segment net interest income/(expense)	17,180	4,799	23,936	15,543	5,724	(370)	(66,812)	–
Net interest income	17,267	4,918	50,915	32,816	14,924	9,007	14,236	144,083
Fee and commission income	4,652	1,531	13,610	8,480	3,365	3,166	12,865	47,669
Fee and commission expense	(37)	(16)	(1,366)	(93)	(31)	(328)	(2,173)	(4,044)
Net fee and commission income	4,615	1,515	12,244	8,387	3,334	2,838	10,692	43,625
Net gains arising from trading activities	344	50	2,295	537	84	341	12,285	15,936
Net gains/(losses) arising from financial investments	–	–	114	–	–	487	(288)	313
Insurance business income	–	–	11,647	–	–	40	–	11,687
Share of profits of associates and joint ventures	–	–	–	–	–	134	280	414
Other operating income	839	168	12,900	533	583	1,711	65	16,799
Total operating income – net	23,065	6,651	90,115	42,273	18,925	14,558	37,270	232,857
Credit impairment losses	(2,034)	(4,882)	(16,255)	(6,268)	(3,591)	(86)	(18,838)	(51,954)
Other assets impairment losses	–	1	(230)	(10)	(15)	(16)	–	(270)
Insurance business expense	–	–	(11,424)	–	–	(8)	–	(11,432)
Other operating expense	(7,400)	(3,298)	(28,719)	(11,441)	(5,967)	(5,516)	(18,660)	(81,001)
Profit before tax	13,631	(1,528)	33,487	24,554	9,352	8,932	(228)	88,200
Income tax								(10,138)
Net profit for the year								78,062
Depreciation and amortisation	(1,101)	(430)	(2,326)	(1,626)	(882)	(608)	(1,132)	(8,105)
Capital expenditure	(356)	(227)	(29,403)	(917)	(382)	(281)	(810)	(32,376)

(All amounts expressed in millions of RMB unless otherwise stated)

45 SEGMENTAL ANALYSIS *(Continued)*

Operating segment information *(Continued)*

	Year ended 31 December 2018							
	Northern China	North Eastern China	Eastern China	Central and Southern China	Western China	Overseas	Head Office	Total
External interest income	28,500	9,630	78,890	43,787	21,811	29,276	136,970	348,864
External interest expense	(30,461)	(8,934)	(58,022)	(32,062)	(14,467)	(21,499)	(52,511)	(217,956)
Inter-segment net interest income/(expense)	18,118	4,570	23,219	18,182	6,288	(426)	(69,951)	–
Net interest income	16,157	5,266	44,087	29,907	13,632	7,351	14,508	130,908
Fee and commission income	4,342	1,623	13,606	8,160	3,221	3,350	10,371	44,673
Fee and commission expense	(226)	(53)	(1,508)	(285)	(153)	(351)	(860)	(3,436)
Net fee and commission income	4,116	1,570	12,098	7,875	3,068	2,999	9,511	41,237
Net gains arising from trading activities	326	74	1,310	455	154	1,094	13,686	17,099
Net gains/(losses) arising from financial investments	–	–	149	–	–	282	(141)	290
Insurance business income	–	–	7,446	–	–	35	–	7,481
Share of profits of associates and joint ventures	–	–	–	–	–	13	214	227
Other operating income	1,166	218	10,412	804	591	1,511	1,111	15,813
Total operating income – net	21,765	7,128	75,502	39,041	17,445	13,285	38,889	213,055
Credit impairment losses	(2,395)	(7,716)	(10,425)	(5,516)	(4,855)	(399)	(12,148)	(43,454)
Other assets impairment losses	–	–	(27)	(24)	–	(9)	–	(60)
Insurance business expense	–	–	(6,712)	–	–	(10)	–	(6,722)
Other operating expense	(7,234)	(3,321)	(25,618)	(11,252)	(5,980)	(4,968)	(18,379)	(76,752)
Profit before tax	12,136	(3,909)	32,720	22,249	6,610	7,899	8,362	86,067
Income tax								(11,902)
Net profit for the year								74,165
Depreciation and amortisation	(734)	(335)	(1,683)	(1,052)	(611)	(235)	(1,027)	(5,677)
Capital expenditure	(361)	(170)	(27,597)	(974)	(665)	(780)	(798)	(31,345)

(All amounts expressed in millions of RMB unless otherwise stated)

45 SEGMENTAL ANALYSIS *(Continued)*

Operating segment information *(Continued)*

	As at 31 December 2019								
	Northern China	**North Eastern China**	**Eastern China**	**Central and Southern China**	**Western China**	**Overseas**	**Head Office**	**Eliminations**	**Total**
Segment assets	**1,219,762**	**344,260**	**2,814,349**	**1,519,238**	**708,382**	**1,100,223**	**4,029,099**	**(1,853,778)**	**9,881,535**
Including:									
Investments in associates and joint ventures	*–*	*–*	*4*	*6*	*–*	*431*	*4,159*	*–*	*4,600*
Unallocated assets									*24,065*
Total assets									**9,905,600**
Segment liabilities	**(1,202,152)**	**(346,410)**	**(2,648,846)**	**(1,483,516)**	**(697,188)**	**(1,067,197)**	**(3,512,239)**	**1,853,778**	**(9,103,770)**
Unallocated liabilities									**(918)**
Total liabilities									**(9,104,688)**

	As at 31 December 2018								
	Northern China	North Eastern China	Eastern China	Central and Southern China	Western China	Overseas	Head Office	Eliminations	Total
Segment assets	1,157,867	339,827	2,669,816	1,434,255	688,096	1,006,195	4,224,506	(2,011,366)	9,509,196
Including:									
Investments in associates and joint ventures	*–*	*–*	*4*	*7*	*–*	*67*	*3,575*	*–*	*3,653*
Unallocated assets									21,975
Total assets									9,531,171
Segment liabilities	(1,140,638)	(342,636)	(2,534,865)	(1,399,199)	(681,169)	(991,077)	(3,747,047)	2,011,366	(8,825,265)
Unallocated liabilities									(598)
Total liabilities									(8,825,863)

(All amounts expressed in millions of RMB unless otherwise stated)

45 SEGMENTAL ANALYSIS *(Continued)*

Business Information

The Group is engaged predominantly in banking and related financial activities. It comprises corporate banking, personal banking, treasury and other business. Corporate banking mainly comprises corporate loans, bills, trade finance, corporate deposits and remittance. Personal banking mainly comprises individual loans, individual deposits, credit cards and remittance. Treasury mainly comprises money market placements and takings, financial investment, and securities sold under repurchase agreements. The "Others Business" segment mainly comprises items which cannot be categorised in the above business segments.

The business information of the Group is summarised as follows:

	Year ended 31 December 2019				
	Corporate Banking Business	**Personal Banking Business**	**Treasury Business**	**Other Business**	**Total**
External net interest income	54,158	45,514	42,145	2,266	144,083
Inter-segment net interest income/ (expense)	19,915	15,277	(35,192)	–	–
Net interest income	74,073	60,791	6,953	2,266	144,083
Net fee and commission income	15,168	25,585	543	2,329	43,625
Net gains/(losses) arising from trading activities	1,708	(3)	11,789	2,442	15,936
Net gains arising from financial investments	–	–	313	–	313
Share of profits of associates and joint ventures	–	–	–	414	414
Insurance business income	–	–	–	11,687	11,687
Other operating income	13,763	2,313	–	723	16,799
Total operating income – net	104,712	88,686	19,598	19,861	232,857
Credit impairment losses	(31,854)	(20,803)	1,014	(311)	(51,954)
Other assets impairment losses	(233)	–	–	(37)	(270)
Insurance business expense	–	–	–	(11,432)	(11,432)
Other operating expense					
– Depreciation and amortisation	(2,917)	(4,347)	(406)	(435)	(8,105)
– Others	(31,335)	(34,412)	(2,858)	(4,291)	(72,896)
Profit before tax	38,373	29,124	17,348	3,355	88,200
Income tax					(10,138)
Net profit for the year					78,062
Depreciation and amortisation	(2,917)	(4,347)	(406)	(435)	(8,105)
Capital expenditure	(11,650)	(17,366)	(1,623)	(1,737)	(32,376)

(All amounts expressed in millions of RMB unless otherwise stated)

45 SEGMENTAL ANALYSIS *(Continued)*

	Year ended 31 December 2018				
	Corporate Banking Business	Personal Banking Business	Treasury Business	Other Business	Total
External net interest income	49,366	41,779	37,313	2,450	130,908
Inter-segment net interest income/ (expense)	19,189	9,011	(28,200)	–	–
Net interest income	68,555	50,790	9,113	2,450	130,908
Net fee and commission income	14,392	24,090	604	2,151	41,237
Net gains/(losses) arising from trading activities	2,656	(53)	13,876	620	17,099
Net gains arising from financial investments	–	–	290	–	290
Share of profits of associates and joint ventures	–	–	–	227	227
Insurance business income	–	–	–	7,481	7,481
Other operating income	11,487	3,130	2	1,194	15,813
Total operating income – net	97,090	77,957	23,885	14,123	213,055
Credit impairment losses	(29,726)	(13,607)	141	(262)	(43,454)
Other assets impairment losses	(34)	–	–	(26)	(60)
Insurance business expense	–	–	–	(6,722)	(6,722)
Other operating expense					
– Depreciation and amortisation	(1,708)	(3,581)	(125)	(263)	(5,677)
– Others	(28,557)	(35,979)	(2,671)	(3,868)	(71,075)
Profit before tax	37,065	24,790	21,230	2,982	86,067
Income tax					(11,902)
Net profit for the year					74,165
Depreciation and amortisation	(1,708)	(3,581)	(125)	(263)	(5,677)
Capital expenditure	(9,430)	(19,775)	(688)	(1,452)	(31,345)

	As at 31 December 2019				
	Corporate Banking Business	**Personal Banking Business**	**Treasury Business**	**Other Business**	**Total**
Segment assets	**3,524,914**	**1,829,595**	**4,429,717**	**97,309**	**9,881,535**
Including:					
Investments in associates and joint ventures	*–*	*–*	*–*	*4,600*	*4,600*
Unallocated assets					**24,065**
Total assets					**9,905,600**
Segment liabilities	**(4,340,472)**	**(2,004,467)**	**(2,719,447)**	**(39,384)**	**(9,103,770)**
Unallocated liabilities					**(918)**
Total liabilities					**(9,104,688)**

(All amounts expressed in millions of RMB unless otherwise stated)

45 SEGMENTAL ANALYSIS *(Continued)*

	As at 31 December 2018				
	Corporate Banking Business	Personal Banking Business	Treasury Business	Other Business	Total
Segment assets	3,181,294	1,721,526	4,529,647	76,729	9,509,196
Including:					
Investments in associates and joint ventures	–	–	–	*3,653*	*3,653*
Unallocated assets					21,975
Total assets					9,531,171
Segment liabilities	(4,247,625)	(1,806,316)	(2,742,362)	(28,962)	(8,825,265)
Unallocated liabilities					(598)
Total liabilities					(8,825,863)

There were no significant transactions with a single external customer that the Group mainly relied on.

46 FINANCIAL STATEMENTS OF THE BANK

(a) Statement of financial position of the Bank

	As at 31 December 2019	As at 31 December 2018
ASSETS		
Cash and balances with central banks	**756,179**	835,960
Due from and placements with banks and other financial institutions	**719,284**	895,393
Derivative financial assets	**19,960**	29,447
Loans and advances to customers	**4,971,617**	4,556,775
Financial investments at fair value through profit or loss	**337,752**	356,351
Financial investments at amortised cost	**1,905,492**	1,982,351
Financial investments at fair value through other comprehensive income	**548,454**	324,922
Investments in associates and joint ventures	**4,055**	3,454
Investments in subsidiaries	**54,167**	46,110
Property and equipment	**50,795**	52,740
Deferred income tax assets	**22,571**	20,580
Other assets	**61,539**	43,710
Total assets	**9,451,865**	9,147,793

(All amounts expressed in millions of RMB unless otherwise stated)

46 FINANCIAL STATEMENTS OF THE BANK *(Continued)*

(a) Statement of financial position of the Bank *(Continued)*

	As at 31 December 2019	As at 31 December 2018
Liabilities		
Due to banks and other financial institutions	**1,809,364**	2,092,370
Financial liabilities at FVPL	**26,342**	23,109
Derivative financial liabilities	**26,076**	28,801
Due to customers	**5,914,089**	5,644,733
Certificates of deposits issued	**493,873**	360,766
Current income tax liabilities	**5,524**	1,334
Deferred income tax liabilities	**102**	46
Debt securities issued	**317,205**	244,163
Other liabilities	**97,535**	77,654
Total liabilities	**8,690,110**	8,472,976
Equity		
Share capital	**74,263**	74,263
Other equity investments	**99,870**	59,876
Including: Preference shares	***59,876***	*59,876*
Perpetual bonds	***39,994***	–
Capital surplus	**113,427**	113,427
Other reserves	**318,251**	313,760
Retained earnings	**155,944**	113,491
Total equity	**761,755**	674,817
Total equity and liabilities	**9,451,865**	9,147,793

The financial statements of the Bank were approved and authorised for issuance by the Board of Directors on 27 March 2020 and signed on its behalf by:

Chairman, Executive Director and President: Ren Deqi

Executive Director and Vice President: Hou Weidong

(All amounts expressed in millions of RMB unless otherwise stated)

46 FINANCIAL STATEMENTS OF THE BANK *(Continued)*

(b) Statement of changes in equity of the Bank

					Other reserves										
	Share capital Note 33	Preference shares Note 34	Perpetual bonds Note 34	Capital surplus Note 33	Statutory reserve Note 35	Discretionary reserve Note 35	Statutory general reserve Note 35	Revaluation reserve for financial assets measured at designated FVOCI Note 35	Revaluation reserve for the changes in credit risk of the financial liabilities measured at designated FVPL	Cash flow hedge reserve	Translation reserve on foreign operations	Actuarial changes reserve	Others	Retained earnings Note 35,36	Total
As at 31 December 2018	74,263	59,876	–	113,427	63,072	139,764	108,717	1,247	(20)	29	(404)	10	1,345	113,491	674,817
Impact from adoption of IFRS 16	–	–	–	–	–	–	–	–	–	–	–	–	–	(609)	(609)
As at 1 January 2019 (restated)	74,263	59,876	–	113,427	63,072	139,764	108,717	1,247	(20)	29	(404)	10	1,345	112,882	674,208
Net profit for the year	–	–	–	–	–	–	–	–	–	–	–	–	–	70,752	70,752
Other comprehensive income	–	–	–	–	–	–	–	1,078	25	(47)	697	(20)	18	–	1,751
Total comprehensive income	–	–	–	–	–	–	–	1,078	25	(47)	697	(20)	18	70,752	72,503
Capital contribution by holders of other equity instruments	–	–	39,994	–	–	–	–	–	–	–	–	–	–	–	39,994
Dividends paid to ordinary shareholders	–	–	–	–	–	–	–	–	–	–	–	–	–	(22,279)	(22,279)
Dividends paid to preference shareholders	–	–	–	–	–	–	–	–	–	–	–	–	–	(2,671)	(2,671)
Transfer to reserves	–	–	–	–	–	–	2,738	–	–	–	–	–	–	(2,738)	–
Transfer from other comprehensive income to retained earnings	–	–	–	–	–	–	–	2	–	–	–	–	–	(2)	–
As at 31 December 2019	74,263	59,876	39,994	113,427	63,072	139,764	111,455	2,327	5	(18)	293	(10)	1,363	155,944	761,755
As at 31 December 2017	74,263	59,876	–	113,427	56,239	139,764	100,012	(2,053)	Not applicable	(5)	(1,473)	35	1,327	112,544	653,956
Impact from adoption of IFRS 9	–	–	–	–	–	–	–	1,797	(6)	–	–	–	–	(28,012)	(26,221)
As at 1 January 2018 (restated)	74,263	59,876	–	113,427	56,239	139,764	100,012	(256)	(6)	(5)	(1,473)	35	1,327	84,532	627,735
Net profit for the year	–	–	–	–	–	–	–	–	–	–	–	–	–	68,324	68,324
Other comprehensive income	–	–	–	–	–	–	–	1,503	(14)	34	1,069	(25)	18	–	2,585
Total comprehensive income	–	–	–	–	–	–	–	1,503	(14)	34	1,069	(25)	18	68,324	70,909
Capital contribution by holders of other equity instruments	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Dividends paid to ordinary shareholders	–	–	–	–	–	–	–	–	–	–	–	–	–	(21,209)	(21,209)
Dividends paid to preference shareholders	–	–	–	–	–	–	–	–	–	–	–	–	–	(2,618)	(2,618)
Transfer to reserves	–	–	–	–	6,833	–	8,705	–	–	–	–	–	–	(15,538)	–
As at 31 December 2018	74,263	59,876	–	113,427	63,072	139,764	108,717	1,247	(20)	29	(404)	10	1,345	113,491	674,817

47 NON-ADJUSTING EVENT AFTER REPORTING PERIOD

In accordance with the resolution and authorization of the 7th meeting of the 9th Session of Board of Directors of the Bank, BOCOM International Holdings Company Limited, a subsidiary of the Bank, intends to initiate the establishment of a wholly-owned subsidiary, BOCOM Financial Technology Company Limited through its wholly-owned subsidiary BOCOM International (Shanghai) Equity Investment Management Co., Ltd. The Investment is subject to relevant regulatory approval.

In January 2020, the Board of Directors of the Bank approved a total capital increase to Bank of Communications (Hong Kong) Limited of no more than HKD30 billion. Such capital will be injected by instalments. Such proposal is subject to the ultimate approval by the Bank's Shareholders' General Meeting.

In January 2020, the Board of Directors of the Bank approved the issuance of undated capital bonds with write-down feature which has a total amount of no more than RMB90 billion or equivalent foreign currencies on the domestic and overseas markets, to replenish Additional Tier 1 Capital of the Bank. Such proposal is subject to the ultimate approval by the Bank's Shareholders' General Meeting.

In January 2020, the Board of Directors of the Bank approved the issuance of financial bonds with a total amount of no more than 1% of the total assets of the Group in its latest audited financial statements on the national inter-bank bond market, which can be implemented with stages during the authorised period. The duration of the bond shall not exceed five years.

In January 2020, the Bank's Hong Kong Branch issued three medium term notes with the face value of RMB2 billion due in 2022, USD1.3 billion due in 2023 and HKD2.8 billion due in 2022 respectively.

In March 2020, Bank of Communications (Hong Kong) Limited issued Non-Cumulative Subordinated Additional Tier 1 Capital Securities with the face value of USD0.5 billion.

In March 2020, Bank of Communications Financial Assets Investment Co., Ltd. issued two financial bonds with the face value of RMB 3 billion due 2023 and RMB 7 billion due 2025 respectively.

Since January 2020, the epidemic of COVID-19 has spread around the world, affecting commercial and economic activities. Consequently, it may to some extent influence the quality of credit assets and investment assets or ROE of the Group. The impacts depend on the duration of the epidemic, work of prevention and control, and regulatory policies. The Group will continue to pay close attention to the progression of the epidemic and actively assess and respond to its impacts on the Group's financial position and operating results. As at the reporting date, the assessment is still in progress.

Report on Review of Interim Financial Information

羅兵咸永道

TO THE BOARD OF DIRECTORS OF BANK OF COMMUNICATIONS CO., LTD
(Incorporated in the People's Republic of China with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 79 to 181, which comprises the interim condensed consolidated statement of financial position of Bank of Communications Co., Ltd (the "Bank") and its subsidiaries (together, the "Group") as at 30 June 2020 and the interim condensed consolidated statement of profit or loss and other comprehensive income, the interim condensed consolidated statement of changes in equity and the interim condensed consolidated statement of cash flows for the six month period then ended, and a summary of significant accounting policies and other explanatory notes. 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, 28 August 2020

Unaudited Condensed Consolidated Financial Statements

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(All amounts expressed in millions of RMB unless otherwise stated)

	Notes	Six months ended 30 June 2020	2019
Interest income		**186,229**	181,862
Interest expense		**(112,380)**	(111,800)
Net interest income	4	**73,849**	70,062
Fee and commission income	5	**26,215**	25,070
Fee and commission expense	6	**(1,938)**	(1,948)
Net fee and commission income		**24,277**	23,122
Net gains arising from trading activities	7	**7,353**	8,289
Net gains arising from financial investments		**1,505**	328
Including: Net gains on derecognition of financial assets measured at amortised cost		*68*	*87*
Share of profits of associates and joint ventures		**85**	292
Insurance business income		**10,936**	8,311
Other operating income	8	**8,954**	7,910
Credit impairment losses	9	**(33,333)**	(21,544)
Other assets impairment losses	10	**(159)**	(6)
Insurance business expense		**(11,022)**	(7,878)
Other operating expenses	11	**(42,487)**	(39,927)
Profit before tax		**39,958**	48,959
Income tax	14	**(2,961)**	(5,811)
Net profit for the period		**36,997**	43,148

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME *(Continued)*

(All amounts expressed in millions of RMB unless otherwise stated)

	Notes	Six months ended 30 June 2020	2019
Other comprehensive income, net of tax			
Items that may be reclassified subsequently to profit or loss:			
Loans and advances to customers at fair value through other comprehensive income			
Amount recognised directly in equity		***249***	*(901)*
Amount reclassified to profit or loss		***(198)***	*–*
Debt investments at fair value through other comprehensive income			
Amount recognised directly in equity		***(127)***	*1,741*
Amount reclassified to profit or loss		***(1,062)***	*(181)*
Effective portion of gains or losses on hedging instruments in cash flow hedges			
Changes in fair value recorded in equity		***(659)***	*110*
Changes in fair value reclassified from equity to profit or loss		***4***	*(171)*
Translation difference on foreign operations		**1,093**	141
Others		**28**	16
		(672)	755
Items that will not be reclassified subsequently to profit or loss:			
Changes in fair value of equity investments designated at fair value through other comprehensive income		**(371)**	99
Actuarial losses on pension benefits		**(34)**	3
Changes in fair value attributable to changes in the credit risk of financial liability designated at fair value through profit or loss		**44**	74
Others		**26**	–
Other comprehensive income, net of tax	39	**(1,007)**	931
Total Comprehensive income for the period		**35,990**	44,079
Net profit attributable to:			
Shareholders of the Bank		**36,505**	42,749
Non-controlling interests		**492**	399
		36,997	43,148
Total comprehensive income attributable to:			
Shareholders of the Bank		**35,403**	43,651
Non-controlling interests		**587**	428
		35,990	44,079
Basic and diluted earnings per share for profit attributable to the shareholders of the Bank (in RMB yuan)	15	**0.46**	0.54

The accompanying notes form a part of these condensed consolidated financial statements.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(All amounts expressed in millions of RMB unless otherwise stated)

	Notes	**As at 30 June 2020**	As at 31 December 2019
ASSETS			
Cash and balances with central banks	16	**801,146**	760,185
Due from and placements with banks and other financial institutions	17	**693,101**	648,488
Derivative financial assets	19	**28,130**	20,937
Loans and advances to customers	20	**5,602,356**	5,183,653
Financial investments at fair value through profit or loss	18	**519,544**	406,498
Financial investments at amortised cost	21	**1,940,765**	1,929,689
Financial investments at fair value through other comprehensive income	21	**786,837**	669,656
Investments in associates and joint ventures	22	**4,745**	4,600
Property and equipment	23	**174,746**	171,179
Deferred income tax assets	24	**26,045**	24,065
Other assets	25	**92,517**	86,650
Total assets		**10,669,932**	9,905,600
LIABILITIES			
Due to and placements from banks and other financial institutions	26	**1,916,759**	1,904,082
Financial liabilities at fair value through profit or loss	27	**26,916**	26,980
Derivative financial liabilities	19	**41,303**	26,424
Due to customers	28	**6,560,867**	6,072,908
Certificates of deposits issued	29	**621,792**	498,991
Current income tax liabilities		**4,830**	7,086
Deferred income tax liabilities	24	**890**	918
Debt securities issued	30	**459,405**	403,918
Other liabilities	31	**223,038**	163,381
Total liabilities		**9,855,800**	9,104,688
EQUITY			
Share capital	32	**74,263**	74,263
Other equity instruments	33	**99,870**	99,870
Including: Preference shares		***59,876***	*59,876*
Perpetual bonds		***39,994***	*39,994*
Capital surplus	32	**113,663**	113,663
Other reserves		**339,109**	328,310
Retained earnings		**175,638**	177,141
Equity attributable to shareholders of the Bank		**802,543**	793,247
Equity attributable to non-controlling interests of ordinary shares		**8,053**	7,665
Equity attributable to non-controlling interests of other equity instruments	36	**3,536**	–
Non-controlling interests		**11,589**	7,665
Total equity		**814,132**	800,912
Total equity and liabilities		**10,669,932**	9,905,600

The condensed consolidated financial statements were approved and authorised for issuance by the Board of Directors on 28 August 2020 and signed on its behalf by:

Chairman, and Executive Director: Ren Deqi *Vice Chairman, Executive Director and President: Liu Jun*

The accompanying notes form a part of these condensed consolidated financial statements.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(All amounts expressed in millions of RMB unless otherwise stated)

		Other equity instruments			Other reserves											Non-controlling interests		
	Share capital Note 32	Preference shares Note 33	Perpetual bonds Note 33	Capital surplus Note 32	Statutory reserve Note 34	Discretionary reserve Note 34	Statutory general reserve Note 34	Revaluation reserve for financial assets at fair value through other comprehensive income	Revaluation reserve for the changes in credit risk of the financial liabilities designated at fair value through profit or loss	Effective portion of gains or losses on hedging instruments in cash flow hedges	Translation reserve on foreign operations	Actuarial changes reserve	Others	Retained earnings Note 34	Attributable to the shareholders of the Bank	Attributable to non-controlling interests of ordinary shares Note 36	Attributable to non-controlling interests of other equity instruments Note36	Total
Balance at 31 December 2019	74,263	59,876	39,994	113,663	64,897	139,853	117,567	3,421	5	15	1,199	(10)	1,363	177,141	793,247	7,665	-	800,912
Net profit for the period	-	-	-	-	-	-	-	-	-	-	-	-	-	36,505	36,505	492	-	36,997
Other comprehensive income	-	-	-	-	-	-	-	(1,363)	44	(655)	852	(34)	54	-	(1,102)	17	78	(1,007)
Total comprehensive income	-	-		-	-	-	-	(1,363)	44	(655)	852	(34)	54	36,505	35,403	509	78	35,990
Capital contribution to holders of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,458	3,458
Dividends paid to ordinary shares	-	-	-	-	-	-	-	-	-	-	-	-	-	(23,393)	(23,393)	(121)	-	(23,514)
Dividends paid to preference shares	-	-	-	-	-	-	-	-	-	-	-	-	-	(2,714)	(2,714)	-	-	(2,714)
Transfer to reserves	-	-	-	-	7,209	-	4,690	-	-	-	-	-	-	(11,899)	-	-	-	-
Transferred from other comprehensive income	-	-	-	-	-	-	-	2	-	-	-	-	-	(2)	-	-	-	-
Balance at 30 June 2020	74,263	59,876	39,994	113,663	72,106	139,853	122,257	2,060	49	(640)	2,051	(44)	1,417	175,638	802,543	8,053	3,536	814,132
Balance at 31 December 2018	74,263	59,876	-	113,663	64,516	139,796	114,281	1,397	(20)	24	93	10	1,345	129,161	698,405	6,903	-	705,308
Impact of adoption of IFRS 16	-	-	-	-	-	-	-	-	-	-	-	-	-	(616)	(616)	(7)	-	(623)
Balance at 1 January 2019	74,263	59,876	-	113,663	64,516	139,796	114,281	1,397	(20)	24	93	10	1,345	128,545	697,789	6,896	-	704,685
Net profit for the period	-	-	-	-	-	-	-	-	-	-	-	-	-	42,749	42,749	399	-	43,148
Other comprehensive income	-	-	-	-	-	-	-	754	74	(61)	116	3	16	-	902	29	-	931
Total comprehensive income	-	-	-	-	-	-	-	754	74	(61)	116	3	16	42,749	43,651	428	-	44,079
Capital contribution to holders of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends paid to ordinary shares	-	-	-	-	-	-	-	-	-	-	-	-	-	(22,279)	(22,279)	(66)	-	(22,345)
Dividends paid to preference shares	-	-	-	-	-	-	-	-	-	-	-	-	-	(2,671)	(2,671)	-	-	(2,671)
Transfer to reserves	-	-	-	-	110	19	2,850	-	-	-	-	-	-	(2,979)	-	-	-	-
Balance at 30 June 2019	74,263	59,876	-	113,663	64,626	139,815	117,131	2,151	54	(37)	209	13	1,361	143,365	716,490	7,258	-	723,748

The accompanying notes form a part of these condensed consolidated financial statements.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(All amounts expressed in millions of RMB unless otherwise stated)

		Six months ended 30 June	
	Notes	**2020**	2019
Cash flows from operating activities:			
Net profit before tax:		**39,958**	48,959
Adjustments for:			
Provision for impairment losses		**33,333**	21,544
Provision for other assets impairment losses		**159**	6
Provision for insurance contracts reserve		**9,051**	5,807
Depreciation and amortisation		**7,236**	6,758
(Reversal of)/Provision for outstanding litigation and unsettled obligation		**(63)**	180
Net gains on the disposal of property, equipment and other assets		**(211)**	(132)
Interest income from financial investments		**(46,272)**	(43,620)
Unwind of discount on allowances during the period		**(767)**	(728)
Fair value losses		**3,040**	1,258
Share of profit of associates and joint venture		**(85)**	(292)
Net gains arising from financial investments		**(1,505)**	(328)
Interest expense on debt securities issued		**6,901**	5,783
Operating cash flows before movements in operating assets and liabilities		**50,775**	45,195
Net decrease in balances with central banks		**36,202**	6,191
Net (increase)/ decrease in due from and placements with banks and other financial institutions		**(41,526)**	28,733
Net increase in financial assets at fair value through profit or loss		**(108,518)**	(53,576)
Net increase in loans and advances to customers		**(450,276)**	(294,368)
Net increase in other assets		**(9,738)**	(7,327)
Net increase/(decrease) in due to and placements from banks and other financial institutions		**12,173**	(192,977)
Net increase in financial liabilities at fair value through profit or loss		**2,578**	2,250
Net increase in due to customers		**606,571**	456,798
Net increase in other liabilities		**27,321**	16,408
Net increase in value-added tax and surcharge payable		**688**	669
Income tax paid		**(6,892)**	(4,429)
Net cash flows from operating activities		**119,358**	3,567

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS *(Continued)*

(All amounts expressed in millions of RMB unless otherwise stated)

	Notes	Six months ended 30 June 2020	2019
Cash flows from investing activities:			
Purchase of financial investments		**(551,012)**	(435,027)
Disposal or redemption of financial investments		**423,024**	329,261
Dividends received		**1,150**	353
Interest received from financial investments		**46,961**	43,824
Acquisition of intangible assets and other assets		**(720)**	(490)
Disposal of intangible assets and other assets		**366**	214
Purchase and construction of property and equipment		**(13,741)**	(18,964)
Disposal of property and equipment		**4,539**	1,741
Net cash flows from investing activities		**(89,433)**	(79,088)
Cash flows from financing activities:			
Cash received from issuing other equity instruments		**3,458**	–
Cash received on debt securities issued		**68,528**	27,182
Repayment of principals and interests of lease liabilities		**(1,131)**	(622)
Repayment of principals of debt securities issued		**(18,442)**	(10,408)
Cash payments for interest on debt securities		**2,910**	(2,949)
Dividends paid to non-controlling interests		**(20)**	(9)
Net cash flows generated from financing activities		**49,483**	13,194
Effect of exchange rate changes on cash and cash equivalents		**1,170**	136
Net increase/(decrease) in cash and cash equivalents		**80,578**	(62,191)
Cash and cash equivalents at the beginning of the period		**167,735**	243,492
Cash and cash equivalents at the end of the period	40	**248,313**	181,301
Net cash flows from operating activities include:			
Interest received		**140,667**	140,703
Interest paid		**(102,391)**	(110,951)

The accompanying notes form a part of these condensed consolidated financial statements.

(All amounts expressed in millions of RMB unless otherwise stated)

1 GENERAL

Bank of Communications Co., Ltd. (the "Bank") is a joint-stock national state-owned commercial bank, reorganised on 1 April 1987 at the approval of notice Guo Fa (1986) No. 81 issued by the State Council of the PRC and notice Yin Fa (1987) No. 40 issued by the People's Bank of China ("PBOC"). Headquartered in Shanghai, the Bank operates 245 branches in Mainland China and 22 branches (sub-branches), subsidiary banks and representative offices overseas. The Bank's A shares are listed on Shanghai Stock Exchange and H shares on Hong Kong Stock Exchange.

The principal activities of the Bank and its subsidiaries (collectively referred to as the "Group") include corporate and personal banking services, interbank and financial market business, fund management, trustees, financial leasing, insurance, overseas securities, debt-to-equity swap, asset management and other financial services.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

These unaudited interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting" issued by the International Accounting Standard Board, as well as with all applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

The Group adopted the going concern basis in preparing its unaudited interim condensed consolidated financial statements.

These unaudited interim condensed consolidated financial statements of the Group should be read in conjunction with the 2019 annual consolidated financial statements.

Taxes on income in interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

The unaudited interim condensed consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments which are measured at fair value. Except as described below, the Group's accounting policies applied in preparing these unaudited interim condensed consolidated financial statements are consistent with those policies applied in preparing the 2019 annual consolidated financial statements.

2.1.1 New and amended standards adopted by the Group

The Group has adopted the following new or amendments to the International Financial Reporting Standards ("IFRSs"):

Amendments to IAS 1 and IAS 8	Definition of Material
Amendments to IFRS 3	Definition of a Business
Revised Conceptual Framework for Financial Reporting	Conceptual Framework for Financial Reporting
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest rate benchmark reform
Amendments to IFRS 16	Covid-19-related Rent Concessions

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.1 New and amended standards adopted by the Group *(Continued)*

Amendments to IAS 1 and IAS 8

The IASB has made amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors which use a consistent definition of materiality throughout International Financial Reporting Standards and the Conceptual Framework for Financial Reporting, clarify when information is material and incorporate some of the guidance in IAS 1 about immaterial information.

In particular, the amendments clarify:

- that the reference to obscuring information addresses situations in which the effect is similar to omitting or misstating that information, and that an entity assesses materiality in the context of the financial statements as a whole, and

- the meaning of 'primary users of general purpose financial statements' to whom those financial statements are directed, by defining them as 'existing and potential investors, lenders and other creditors' that must rely on general purpose financial statements for much of the financial information they need.

Amendments to IFRS 3

The amended definition of a business requires an acquisition to include an input and a substantive process that together significantly contribute to the ability to create outputs. The definition of the term 'outputs' is amended to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits.

The amendments will likely result in more acquisitions being accounted for as asset acquisitions.

Revised Conceptual Framework for Financial Reporting

The IASB has issued a revised Conceptual Framework which will be used in standard-setting decisions with immediate effect. Key changes include:

- increasing the prominence of stewardship in the objective of financial reporting

- reinstating prudence as a component of neutrality

- defining a reporting entity, which may be a legal entity, or a portion of an entity

- revising the definitions of an asset and a liability

- removing the probability threshold for recognition and adding guidance on derecognition

- adding guidance on different measurement basis, and

- stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements.

No changes will be made to any of the current accounting standards. However, entities that rely on the Framework in determining their accounting policies for transactions, events or conditions that are not otherwise dealt with under the accounting standards will need to apply the revised Framework from 1 January 2020. These entities will need to consider whether their accounting policies are still appropriate under the revised Framework.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.1 New and amended standards adopted by the Group *(Continued)*

Amendments to IFRS 9, IAS 39 and IFRS 7

The IASB has published Amendments to IFRS 9, IAS 39 and IFRS 7- Interest Rate Benchmark Reform as a first reaction to the potential effects the Interest Rate Benchmark Reform ("IBOR") could have on financial reporting. The amendments provide targeted relief for financial instruments qualifying for hedge accounting in the lead up to IBOR reform. Key changes include:

- modifying specific hedge accounting requirements so that entities would apply those hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform;

- mandatory for all hedging relationships that are directly affected by the interest rate benchmark reform;

- are not intended to provide relief from any other consequences arising from interest rate benchmark reform (if a hedging relationship no longer meets the requirements for hedge accounting for reasons other than those specified by the amendments, discontinuation of hedge accounting is required); and

- requiring specific disclosures about the extent to which the entities' hedging relationships are affected by the amendments.

Amendments to IFRS 16

The IASB has published Covid-19-related Rent Concessions (Amendment to IFRS 16). Its key amendments include:

- Lessees were provided an exemption from assessing a rent concession related to COVID-19 is a lease modification.

- Lessees applying the exemption need to account for rent concessions as if they were not lease modification.

- Lessees that apply the exemption need to disclose that fact.

- Lessees need to apply the exemption retrospectively as required by IAS 8 without restatement of comparative amount for prior period.

The adoption of the new IFRSs and amendments to IFRSs above does not have a material impact on the Group's operating results, financial position or other comprehensive income.

(All amounts expressed in millions of RMB unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.2 Standards and amendments issued but not yet effective

		Effective for annual period commencing on or after
Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture	The amendments were originally intended to be effective for annual periods beginning on or after 1 January 2016. The effective date has now been deferred/removed.
Amendments to IAS 16	Property, Plant and Equipment: Proceeds before intended use	1 January 2022
IFRS 17 and its amendments	Insurance Contracts	1 January 2023
Amendments to IFRS 3	Reference to the Conceptual Framework	1 January 2022
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022
Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41	Annual Improvements to IFRS Standards 2018-2020	1 January 2022

Amendments to IFRS 10 and IAS 28
The amendments address an inconsistency between IFRS 10 and IAS 28 in the sale and contribution of assets between an investor and its associate or joint venture.

A full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if those assets are in a subsidiary.

Amendments to IAS 16
The amendment to IAS 16 Property, Plant and Equipment (PP&E) prohibits an entity from deducting from the cost of an item of PP&E any proceeds received from selling items produced while the entity is preparing the asset for its intended use. It also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment.

Entities must disclose separately the amounts of proceeds and costs relating to items produced that are not an output of the entity's ordinary activities.

IFRS 17 and its amendments
IFRS 17 Insurance Contracts was issued in May 2017 as replacement for IFRS 4. It requires a current measurement model where estimates are re-measured in each reporting period. Contracts are measured using the building blocks of discounted probability weighted cash flows, an explicit risk adjustment, and a contractual service margin ("CSM") representing the unearned profit of the contract which is recognised as revenue over the coverage period.

The standard allows a choice between recognising changes in discount rates either in the statement of profit or loss or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under IFRS 9.

An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.2 Standards and amendments issued but not yet effective *(Continued)*

IFRS 17 and its amendments (Continued)

There is a modification of the general measurement model called the "variable fee approach" for certain contracts written by life insurers where policyholders share in the returns from underlying items. When applying the variable fee approach, the entity's share of the fair value changes of the underlying items is included in the CSM. The results of insurers using this model are therefore likely to be less volatile than under the general model.

The IASB issued the amendments to IFRS 17 Insurance contracts, on 25 June 2020, together with an amendment to IFRS 4, so that eligible insurers can still apply IFRS 9 alongside IFRS 17. This concluded the IASB's targeted amendments to IFRS 17 which aimed to ease implementation of the standard by reducing implementation costs and making it easier for entities to explain, to investors and others, the results from applying IFRS 17. The amendments to IFRS 17 include:

- Effective date

The effective date of IFRS 17 (incorporating the amendments) has been deferred by two years to annual reporting periods beginning on or after 1 January 2023; and the fixed expiry date of the temporary exemption from applying IFRS 9 in IFRS 4 has also been deferred to annual reporting periods beginning on or after 1 January 2023.

- Expected recovery of insurance acquisition cash flows

An entity is required to allocate part of the acquisition costs to related expected contract renewals, and to recognise those costs as an asset until the entity recognises the contract renewals. Entities are required to assess the recoverability of the asset at each reporting date, and to provide specific information about the asset in the notes to the financial statements.

- Contractual service margin attributable to investment services

Coverage units should be identified, considering the quantity of benefits and expected period of both insurance coverage and investment services, for contracts under the variable fee approach and for other contracts with an 'investment-return service' under the general model. Costs related to investment activities should be included as cash flows within the boundary of an insurance contract, to the extent that the entity performs such activities to enhance benefits from insurance coverage for the policyholder.

- Reinsurance contracts held – recovery of losses

When an entity recognises a loss on initial recognition of an onerous group of underlying insurance contracts, or on addition of onerous underlying contracts to a group, an entity should adjust the contractual service margin of a related group of reinsurance contracts held and recognise a gain on the reinsurance contracts held. The amount of the loss recovered from a reinsurance contract held is determined by multiplying the loss recognised on underlying insurance contracts and the percentage of claims on underlying insurance contracts that the entity expects to recover from the reinsurance contract held. This requirement would apply only when the reinsurance contract held is recognised before or at the same time as the loss is recognised on the underlying insurance contracts.

- Other amendments to IFRS 17 include:
  - Scope exclusions for some credit card (or similar) contracts, and some loan contracts;
  - Presentation of insurance contract assets and liabilities in the statement of financial position in portfolios instead of groups;
  - Applicability of the risk mitigation option when mitigating financial risks using reinsurance contracts held and non-derivative financial instruments at fair value through profit or loss;
  - An accounting policy choice to change the estimates made in previous interim financial statements when applying IFRS 17;
  - Inclusion of income tax payments and receipts that are specifically chargeable to the policyholder under the terms of an insurance contract in the fulfilment cash flows;
  - Selected transition reliefs and other minor amendments.

The Group has not completed its assessment of the impact on the Group's operating results and financial position of adopting IFRS 17.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.2 Standards and amendments issued but not yet effective *(Continued)*

Amendments to IFRS 3
The amendments to IFRS 3, 'Business combinations', referred to the 2018 Conceptual Framework for Financial Reporting, in order to determine what constitutes an asset or a liability in a business combination. In addition, the amendments add a new exception in IFRS 3 for liabilities and contingent liabilities. The exception specifies that, for some types of liabilities and contingent liabilities, an entity applying IFRS 3 should instead refer to IAS 37, 'Provisions, Contingent Liabilities and Contingent Assets', or IFRIC 21, 'Levies', rather than the 2018 Conceptual Framework. The amendments also clarify that the acquirer should not recognise contingent assets, as defined in IAS 37, at the acquisition date.

Amendments to IAS 37
The amendment clarifies the meaning of 'costs to fulfil a contract' and explains that the direct cost of fulfilling a contract comprises:

- The incremental costs of fulfilling that contract (for example, direct labour and materials); and

- An allocation of other costs that relate directly to fulfilling contracts (for example, an allocation of the depreciation charge for an item of PP&E used to fulfil the contract).

The amendment also clarifies that, before a separate provision for an onerous contract is established, an entity recognises any impairment loss that has occurred on assets used in fulfilling the contract, rather than on assets dedicated to that contract.

Annual Improvements to IFRS Standards 2018-2020
The Annual Improvements to IFRSs 2018-2020 Cycle include a number of amendments to various IFRSs:

- IFRS 9 Financial Instruments – clarifies which fees should be included in the 10% test for derecognition of financial liabilities.

- IFRS 16 Leases – amendment of illustrative example 13 to remove the illustration of payments from the lessor relating to leasehold improvements, to remove any confusion about the treatment of lease incentives.

- IFRS 1 First-time Adoption of International Financial Reporting Standards – allows entities that have measured their assets and liabilities at carrying amounts recorded in their parent's books to also measure any cumulative translation differences using the amounts reported by the parent. This amendment will also apply to associates and joint ventures that have taken the same IFRS 1 exemption.

- IAS 41 Agriculture – removal of the requirement for entities to exclude cash flows for taxation when measuring fair value under IAS 41. This amendment is intended to align with the requirement in the standard to discount cash flows on a post-tax basis.

Except for the above-mentioned impact of IFRS 17, the adoption of the above new standards and amendments issued but not yet effective is not expected to have a material effect on the Group's operating results, financial position or other comprehensive income.

2.2 Critical accounting estimates and judgments in applying accounting policies

The preparation of interim condensed consolidated financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense.

In preparing this interim condensed consolidated financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2019.

3 FINANCIAL RISK MANAGEMENT

Overview

The Group's business activities expose it to a variety of financial risks regarding analysis, evaluation, acceptance and management. The Group's aim is to achieve an appropriate balance between risks and returns and minimise potential adverse effects on the Group's financial performance. The main types of financial risks are credit risk, liquidity risk, market risk, operational risk, etc.

The Group's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, monitor the risks and to control the risk limits through reliable and up-to-date information systems. The Group regularly reviews its risk management policies and systems to reflect changes in markets and products and the latest best practice.

Risk management framework

The Board of Directors sets out risk management strategies, overall risk preference and risk tolerance level. The senior management establishes risk management policies and procedures according to the strategies set by the Board of Directors. The Risk Management Department (Internal Control and Crime Prevention Office) at Head Office leads the risk management. The risk management division in each operation department at Head Office, in each domestic and overseas branch and in each subsidiary undertakes specific risk management function. Internal Audit Department is responsible for independent review of risk management and control environment.

3.1 Credit risk

Credit risk is the risk of loss that a borrower or counterparty fails to or is unwilling to meet its obligations. Credit risk arises principally from loans and advances to customers, financial investments, derivative instruments and due from and placements with banks and other financial institutions. There is also credit risk in off-balance sheet items such as loan commitments, financial guarantees, acceptances and letters of credit. Credit risk is a major risk to which the Bank is exposed. Therefore, the Group manages and controls the overall credit risk in a prudent manner and the Risk Management Department (Internal Control and Crime Prevention Office) at Head Office reports regularly to the senior management and the Board of Directors of the Group.

3.1.1 Credit risk management

The Group's credit risk management is assumed by major functions such as Corporate Business Department, Inclusive Finance Department, Personal Finance Business Department, Pacific Credit Card Centre, Credit Authorisation Department and Risk Management Department (Internal Control and Crime Prevention Office). They are responsible for the standardised management of corporate and retail credit businesses in terms of guidance on credit investment, credit investigation and report, credit approval, loan granting, post-loan monitoring and non-performing loan management.

(a) Loans and advances to customers and off-balance sheet commitments

As for corporate loans, the Group's relationship managers are responsible for receiving application files submitted by the applicants, conducting pre-loan investigation, assessing the credit risk, and raising the proposed rating. The Group adopts the hierarchical approval system at the branch and Head Office level based on the credit approval authority. Credit line is determined by taking into account the credit record, financial position, collaterals and guarantees of the applicant, overall credit risk of the credit portfolio, macroeconomic regulation and control policies and relevant laws and regulations. The Group keeps a close eye on the economic and financial trend and credit risk profile in the industry and provides more guidance on credit investment by formulating guidance for different industries, provides more guidance on credit investment, formulate guidance for different industries, strengthens daily risk pre-warning, monitoring and specific risk investigation, identify customers under major risks and material potential risk points, enhances the refinement of post-loan management. The independent loan granting centre shall review the compliance, completeness and effectiveness of relevant credit files before loan granting according to the applications for drawdown of credit line. The Group's relationship managers are primarily responsible for post-loan management. The Group adopts a series of tools and approaches, such as risk filtering, list management, risk warning and risk investigation, in daily risk monitoring of corporate loans. The Group manages non-performing loans mainly through (1) collection; (2) restructuring; (3) disposal of collaterals or recourse to the guarantors; (4) litigation or arbitration.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.1 Credit risk management *(Continued)*

(a) Loans and advances to customers and off-balance sheet commitments (Continued)

For retail credit assets, the Group manages the overall risk profile of retail credit business through on-site review and adoption of reporting system on material matters, strengthens daily risk monitoring and pre-warning through optimising management system, standardises operation process of retail credit business through formulating manuals for individual loans and small-enterprise loans, identifies and reveals material potential risks on a timely manner through strengthening risk monitoring and early-warning, and understands and forecasts the quality trends so as to adopt targeted risk control measures in advance by using stress testing and quality migration analysis. In addition, the Group continues to carry out fast response mechanism to address emergencies properly and maintains a list to manage those key risk projects through risk monitoring, guidance, collection and mitigation.

The Group adopts categorised management for retail credit assets on the basis of overdue ageing and guarantee type. With regard to retail credit customers with overdue loans, different approaches are adopted to collect such loans based on their overdue days.

Credit Card Centre of the Group is in charge of the operation and management of credit card business. Credit Card Centre of the Group adopts various supervisory and preventive measures. It reinforces data cross-validation to enhance risk prevention in the approval process, tightens credit line to high risk customers through subsequent credit investigation and enters into the collection process earlier than scheduled, effectively improves collection result through reasonable allocation of available resources, and optimises data analytic system to further enhance the management of credit card business.

(b) Treasury business

For treasury business (including debt investments), the Group chooses banks and other financial institutions prudently and balances the credit risk and return rate of investments. By making reference to internal and external credit rating information, the Group approves credits of different levels and uses an appropriate credit limit management system to review and adjust credit lines, aiming to manage the credit risk exposed to the treasury business.

For debt securities, internal and external ratings (such as Standard and Poor's) are used by the Group when available for managing the credit risk exposed to debt securities and bills. The investment in those debts and bills is to have better credit quality assets while maintaining readily available liquidity resource. The bond issuers involved with the Group are subject to the credit granting review and approval of the Head Office and credit limits are placed on such issuers.

Debt investments other than debt securities include investments in fund trust schemes, asset management plans and wealth management products set up by banking financial institutions. Fund trust schemes and asset management plans, the funds of which ultimately go to trust loans, are mainly managed and operated by third-party trustees and asset managers. The Group implements a rating system for accepting trust companies, securities companies and fund companies, sets credit limits for repurchase parties of trust beneficiary right, ultimate borrowers of targeted asset management plans, and issuers of inter-bank wealth management products, and carries out follow-up risk management on a regular basis.

As for derivative instruments, the Group maintains strict limits on net open derivative investment positions (i.e., the difference between long and short contracts), by both amount and maturity. 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 where their fair value is positive), which, in relation to derivative instruments, is only a fraction of the contract's notional amount used to express the amount outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market fluctuations. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except when the Group requires margin deposits from counterparties. The management has set limits of these contracts according to counterparty, and regularly monitor and control the actual credit risk when the Group concludes foreign exchange and interest rate contracts with other financial institutions and clients.

The Group manages the credit quality of due from and placements with banks and other financial institutions, and balances arising from transactions for precious metals, by considering the size, financial position, the internal and external credit rating of the banks and financial institutions. The Head Office monitors and reviews the credit risk of due from and placements with banks and other financial institutions by counterparties periodically. Limits are placed on different counterparties.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.1 Credit risk management *(Continued)*

(c) Credit-related commitments

Credit risk exposures to financial guarantees are the same as that of loans. However, commercial letters of credit are usually pledged by the relevant shipped goods, and therefore are subject to lower risk compared with direct loans. Credit-related commitments are included in the management of overall credit line granted to the applicant. For customers with transactions beyond the credit limit or infrequent transactions, the applicant shall be requested to provide relevant guarantee in order to reduce credit risk exposures.

(d) Credit risk quality

In accordance with the Guideline for Loan Credit Risk Classification issued by the China Banking and Insurance Regulatory Commission ("CBIRC"), the Group has established a loan credit risk classification system and performs credit risk management based on loan classification in one of five categories. The Group classifies loans into the following five categories: normal, special-mention, substandard, doubtful and loss, of which substandard, doubtful and loss loans are regarded as non-performing loans.

The five categories of loan classification into which the Group classifies its loans and advances to customers are set out below:

Normal:	Borrowers can honour the terms of their loans. There is no reason to doubt their ability to repay principal and interest in full on a timely basis.
Special-mention:	Borrowers are able to service their loans currently, although repayment may be adversely affected by specific factors.
Substandard:	Borrowers' ability to service their loans is in question and they cannot rely entirely on normal operating revenues to repay principal and interest. Losses may ensue even when collaterals or guarantees are invoked.
Doubtful:	Borrowers cannot repay principal and interest in full and significant losses will need to be recognised even when collaterals or guarantees are invoked.
Loss:	Only a small portion or none of the principal and interest can be recovered after taking all possible measures and exhausting all legal remedies.

3.1.2 Expected credit loss ("ECL")

The Group measures the ECL of financial instruments at amortised cost or debt investments at fair value through other comprehensive income. The Group divides them into 3 stages by assessing whether there has been a significant increase in credit risk since initial recognition.

The Group measures the ECL of a financial instrument in a way that reflects:

(1) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;

(2) the time value of money;

(3) 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.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.2 Expected credit loss ("ECL") *(Continued)*

Stage classification

The Group divides them into 3 stages. Stage 1 is "financial assets without significant increase in credit risk since initial recognition", at which the Group only needs to measure ECL in the next 12 months. Stage 2 is "financial assets with significant increase in credit risk" and stage 3 is "credit-impaired financial assets", at both of which the Group needs to measure lifetime ECL.

Definition of credit-impaired

The Group considers a financial instrument is default, when it is credit-impaired.

The Group considers a financial instrument to be credit-impaired when one or more of the following criteria have been met:

(1) Principal (including advances, applies to below) or interest of the asset is more than 90 days past due;

(2) The issuer or obligor is in significant financial difficulty, or has already become insolvent;

(3) It is becoming probable that the obligor will enter bankruptcy;

(4) An active market for that financial asset has disappeared because of financial difficulties of issuers;

(5) Other objective evidence indicating impairment of the financial asset.

A significant increase in credit risk

The Group assesses quarterly whether the credit risk on a financial instrument has increased significantly since initial recognition. In determining the stage classification of a financial asset, the Group considers all reasonable and supportable information which reflects whether there have been significant changes in credit risk, including that which is forward-looking. Based on an individual financial instrument or a portfolio of financial instruments with similar credit risk characteristics, the Group compares risk of default occurring at reporting date as with initial recognition, in order to determine possible changes in risk of default occurring during the expected life of the financial instrument. The Group considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following criteria have been met:

(1) Principal or interest of the instrument is more than 30 days past due;

(2) Credit rating of obligor changes significantly. Credit rating is based on both internal and external rating results, and the criteria are as follow: (a) a significant increase in credit risk is determined when internal and external rating during the reporting period is below the Group's credit acceptance standards; (b) When the borrower's internal rating is downgraded to a certain level, there has been a significant increase in credit risk. Criteria to determine significant increase in credit risk varies based on the original internal rating upon initial recognition;

(3) Significant adverse issues have negative impacts on obligator's repayment ability;

(4) Other circumstances of significant increase in credit risk. For example, appearance of other risk alarm indicators which imply growing potential risk and could cause losses of financial assets to the Group.

The financial assets are moveable between stages. For instance, financial instruments originally classified at stage 1 should be downgraded to stage 2 if events occur such as a significant increase in credit risk. Financial instruments at stage 2 could be upgraded to stage 1 if credit risk decreases and the criteria for the determination of "a significant increase in credit risk" are no longer met.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.2 Expected credit loss ("ECL") *(Continued)*

Stage classification (Continued)

A significant increase in credit risk *(Continued)*

After the outbreak of the epidemic of COVID-19, the Group strictly followed the regulatory policies and requirements and prudently evaluates the repayment ability of the clients who apply for payment holiday. On the premise that the subsequent risks will not be enlarged and subsequent settlement will not be affected, the Group rescues those client meeting specific criteria by extending the maturity and so on. The Group has assessed whether the rescues would cause a significant increase in credit risks and has adjusted the stage classification as appropriate.

Description of parameters, assumptions and estimation techniques

The Group recognises a loss allowance to different financial instruments at an amount equal to 12-month or lifetime expected credit loss based on whether there has been a significant increase in credit risk and whether the financial instrument is credit-impaired. ECL is the result of discounted product of the weighted average of "probability of default (PD)", "loss given default (LGD)", "exposure at default (EAD)" under the three scenarios, which are defined as follows:

Probability of default (PD) is the probability of default occurring of a client and its assets in a given period of time in the future.

Exposure at default (EAD) represents the total amount of on-balance sheet and off-balance sheet exposure at the time of default by debtor, reflecting the total amount of possible losses likely to be incurred. In general, this includes the utilised credit limit, interest receivable, the anticipated usage of unused credit facilities as well as the related expenses to be incurred.

Loss given default (LGD) represents the percentage of amount of loss to be incurred in the event of default to the total risk exposure. It is expressed as the loss percentage per unit of exposure which typically varies by nature of debtor, type and seniority of claim and the availability of collaterals or other credit enhancements.

Definition of default has been consistently applied to model establishment of probability of default (PD), exposure at default (EAD), loss given default (LGD) in ECL calculation throughout the Group.

Estimation of ECL: the impairment models

The impairment model's adopt a top down approach. Through grouping, the models cover the risk exposures of financial institutions, companies and retailers. The Group has established a macro-economic forecast model driven by Gross Domestic Product (GDP) growth rate to annually forecast values of macro-economic indicators in multiple categories, including national accounts, price index, foreign trades, fixed asset investments, currency and interest rates, under three economic scenarios (i.e., Optimistic Scenario, Basic Scenario, and Pessimistic Scenario). The forecasts, after evaluation and confirmation by economic experts and senior management of the Bank, are used in asset impairment model. The macro scenario settings and the rationality of the weightings are reviewed and adjusted quarterly, based on changes in the internal and external economic environment.

Where impairment models cannot be established due to lack of data support, the Group endeavours to select appropriate methods in order to make prospective estimation. The Group makes prospective adjustments to impairment calculation of overseas branches and subsidiaries regularly based on macro-forecast data from authoritative institutions (such as IMF and the World Bank). For asset portfolios not covered by impairment models, expected loss rate is set by referring to that of similar asset portfolios with impairment models available.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.2 Expected credit loss ("ECL") *(Continued)*

Description of parameters, assumptions and estimation techniques (Continued)

Estimation of ECL: the impairment models *(Continued)*

When the management believes that the model predictions cannot fully reflect recent credit or economic events, management overlay adjustments can be used to supplement ECL allowances. New management overlay adjustments in this period are mainly about payment holidays under the epidemic of Covid-19. The amount of management overlay adjustments in total do not have a significant impact on the Group's ECL allowance.

Influence of the epidemic of Covid-19

The outbreak of the epidemic of COVID-19 over the first half year of 2020 has led to differing impacts throughout the world and has obviously impinged upon domestic production and economic operations. The epidemic is still ongoing and evolving. At the same time, various measures have been introduced for resumption of work and helping enterprises to relieve the difficulties. Considering the impacts of the epidemic of COVID-19 on the global macro-economy, the management has added a New Scenario under the epidemic during the period and re-adjusted the weightings between scenarios, based on the actual values of various macroeconomic indicators in the first quarter of 2020 and 2021, combined with the IMF and other authorities' outlook for China's macroeconomics in 2020. The New Scenario is defined as the most probable situation and benchmark for other scenarios. At the same time, the management believes that the Basic Scenario and the Pessimistic Scenario are still possible while the Optimistic Scenario is no longer applicable under the current macro-economic background. The above scenarios apply to all portfolios.

Sensitivity analysis

If the weighting of New Scenario increases to 100%, the impairment allowance of loans and advances will increase RMB2,093 million, and the impairment allowance of debt investments at amortised cost and fair value through other comprehensive income will increase RMB421 million.

Grouping of instruments with similar risk characteristics

To calculate the relevance between ECL allowance modelled on a collective basis and macro-economic indicators, a grouping of exposure is performed on the basis of shared risk characteristics, so that risk exposures within a group are homogenous. In performing this grouping, there must be sufficient information for the Group to be statistically credible. Where sufficient information is not available internally, the Group has considered benchmarking internal/external supplementary data for modelling purposes. Non-retail assets of the Group are mainly grouped according to industries, while retail assets are mainly grouped based on product types, repayment methods and so on.

3.1.3 Maximum exposure to credit risk

3.1.3.1 Maximum exposure to credit risk – financial instruments included in impairment assessment

The Group categorises asset risk characteristics based on the quality of the assets, differentiating financial instruments included in expected credit losses calculation as "Low risk", "Medium risk", "High risk" and "Impaired". "Low risk" refers to counterparty with strong repayment ability, low probability of impairment in the future, and minor effect of adverse external factors; "Medium risk" refers to counterparty with certain repayment ability, but continuously unstable and worsening business, finance, and economic conditions will potentially cause its repayment ability to descend; "High risk" refers to counterparty with existence of adverse factors having significant effect on repayment ability or high probability of impairment in the future; and "Impaired" refers to the assets met the Group's definition of credit-impaired.

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.3 Maximum exposure to credit risk (Continued)

3.1.3.1 Maximum exposure to credit risk – financial instruments included in impairment assessment (Continued)

The table below analyses exposure to credit risk of financial instruments included in expected credit losses assessment. The balance of financial instruments below is the maximum exposure to credit risk of these instruments in the Group.

As at 30 June 2020	Low risk	Medium risk	High risk	Impaired	Domestic branches	Overseas and subsidiaries	Group total	Allowance for impairment losses	Group carrying amount	As at 31 December 2019 Group carrying amount
On-balance sheet item										
Cash and balances with central banks (Stage 1)	743,902	–	–	–	743,902	42,717	786,619	–	786,619	745,704
Loans and advances to customers (Corporate)										
–at amortised cost	1,854,664	1,084,754	83,505	68,542	3,091,465	537,604	3,629,069	(110,360)	3,518,709	3,208,926
Stage 1	1,853,854	1,051,176	3,182	–	2,908,212	527,282	3,435,494	(32,841)	3,402,653	3,091,854
Stage 2	810	33,578	80,323	–	114,711	4,075	118,786	(30,162)	88,624	99,741
Stage 3	–	–	–	68,542	68,542	6,247	74,789	(47,357)	27,432	17,331
–FVOCI	155,512	106,589	8,771	136	271,008	30	271,038	–	271,038	235,414
Stage 1	155,512	104,739	3,683	–	263,934	30	263,964	–	263,964	228,957
Stage 2	–	1,850	5,088	–	6,938	–	6,938	–	6,938	6,404
Stage 3	–	–	–	136	136	–	136	–	136	53
Loans and advances to customers (Individuals)										
–at amortised cost	1,363,952	376,423	21,947	21,147	1,783,469	45,937	1,829,406	(30,957)	1,798,449	1,727,216
Stage 1	1,363,668	375,505	14,419	–	1,753,592	45,588	1,799,180	(9,892)	1,789,288	1,718,712
Stage 2	284	918	7,528	–	8,730	128	8,858	(3,766)	5,092	5,892
Stage 3	–	–	–	21,147	21,147	221	21,368	(17,299)	4,069	2,612
Due from and placements with banks and other financial institutions (Stage 1)	391,698	1,001	–	–	392,699	301,610	694,309	(1,208)	693,101	648,488
Financial investments at amortised cost	1,863,447	22,003	793	1,079	1,887,322	56,216	1,943,538	(2,773)	1,940,765	1,929,689
Stage 1	1,863,447	22,003	–	–	1,885,450	55,114	1,940,564	(1,867)	1,938,697	1,927,617
Stage 2	–	–	793	–	793	704	1,497	(265)	1,232	1,319
Stage 3	–	–	–	1,079	1,079	398	1,477	(641)	836	753
Financial investments at FVOCI	336,492	2,791	–	–	339,283	437,063	776,346	–	776,346	660,711
Stage 1	336,492	2,791	–	–	339,283	436,934	776,217	–	776,217	660,711
Stage 2	–	–	–	–	–	15	15	–	15	–
Stage 3	–	–	-	–	–	114	114	–	114	–
Other financial assets at amortised cost	20,121	12,460	63	1,355	33,999	15,931	49,930	(3,205)	46,725	40,483
Stage 1	20,120	12,452	–	–	32,572	15,931	48,503	(2,329)	46,174	39,777
Stage 2	1	8	63	–	72	–	72	(18)	54	215
Stage 3	–	–	–	1,355	1,355	–	1,355	(858)	497	491
On-balance sheet total	6,729,788	1,606,021	115,079	92,259	8,543,147	1,437,108	9,980,255	(148,503)	9,831,752	9,196,631
Financial guarantees and credit related commitments										
Stage 1	1,172,609	318,579	2,711	–	1,493,899	75,457	1,569,356	(7,307)	1,562,049	1,453,957
Stage 2	–	3,491	4,493	–	7,984	941	8,925	(636)	8,289	11,881
Off-balance sheet total	1,172,609	322,070	7,204	–	1,501,883	76,398	1,578,281	(7,943)	1,570,338	1,465,838
Total	7,902,397	1,928,091	122,283	92,259	10,045,030	1,513,506	11,558,536	(156,446)	11,402,090	10,662,469

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.3 Maximum exposure to credit risk (Continued)

3.1.3.2 Maximum exposure to credit risk – financial instruments not included in impairment assessment

The analysis of credit risk exposure of those financial assets which are not included in the impairment assessment are as follows:

	Maximum exposure to credit risk	
	30 June 2020	31 December 2019
Financial assets at fair value through profit or loss		
Derivative financial assets	**28,130**	20,937
Bond investments	**159,571**	134,950
Funds, trusts and debt investments	**274,816**	170,435
Precious metal contracts	**29,193**	39,532
Placements with banks and other financial institutions	**5,145**	11,864
Total	**496,855**	377,718

3.1.3.3 Collaterals and other credit enhancements

The Group manages, limits and controls concentrations of credit risk wherever they are identified, in particular, to individual counterparties, company and groups, industry segments and geographical regions.

The Group structures the levels of credit risk it undertakes by placing limits in relation to one borrower, or group of borrowers. Such risks are monitored on a regular basis and subject to annual or more frequent review, whenever necessary.

The exposure to any single borrower including banks and brokers is further restricted by sub-limits covering on-balance and off-balance sheet exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing their lending limits where appropriate.

Some other specific control and risk mitigation measures are outlined below.

(a) Collaterals

The Group employs a range of policies and practices to mitigate credit risk. The most useful practice is to accept collaterals or pledges. The Group implements guidelines on the acceptability of specific classes of collaterals and pledges. The principal types of collaterals and pledges for loans and advances to customers are:

- Residential properties;
- Business assets such as premises, inventory and receivables;
- Financial instruments such as debt securities and stocks.

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.3 Maximum exposure to credit risk *(Continued)*

3.1.3.3 Collaterals and other credit enhancements (Continued)

(a) Collaterals *(Continued)*

The value of collaterals at the time of loan origination is determined by the Credit Authorisation Department and the amount of the loans granted is subject to loan-to-value ratio limits based on collateral types. The principal types of collaterals for corporate loans and individual loans are as follows:

Collaterals	Maximum loan-to-value ratio
Cash deposits with the Group	90%
PRC treasury bonds	90%
Financial institution bonds	90%
Publicly traded stocks	60%
Rights to collect fees or right of management	65%
Properties	70%
Land use rights	70%
Vehicles	50%

Long-term loans and advances to corporate and individual customers are generally secured, while revolving individual credit facilities are generally unsecured. In addition, in order to minimise the credit loss, the Group will seek additional collaterals and pledges from the counterparties as soon as impairment indicators are noted for the individual loans and advances.

For loans guaranteed by a third-party guarantor, the Group will assess the financial condition, credit history and ability to meet obligations of the guarantor.

Collaterals and pledges held as security for financial assets other than loans and advances to customers are determined by the nature of the instrument. Debt securities, PRC treasury bonds and PBOC bills are generally unsecured, with the exception of asset-backed securities, which are secured by portfolios of financial instruments.

The Group closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that the Group will take possession of collateral to mitigate potential credit losses. Financial assets that are credit-impaired and related collateral held in order to mitigate potential losses are shown below:

	Gross exposure	**Impairment allowance**	**Carrying amount**	**Fair value of collateral held**
As at 30 June 2020				
Credit-impaired assets				
Loans and advances to customers				
Loans to corporate entities	**74,924**	**(47,357)**	**27,567**	**29,029**
Loans to individuals	**21,368**	**(17,299)**	**4,069**	**15,030**
Financial investments				
Financial investments at amortised cost	**2,974**	**(906)**	**2,068**	**6,943**
Debt investments at FVOCI	**796**	**(524)**	**129**	**–**

For the six months ended 30 June 2020
(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.3 Maximum exposure to credit risk (Continued)

3.1.3.3 Collaterals and other credit enhancements (Continued)

(a) Collaterals *(Continued)*

	Gross exposure	Impairment allowance	Carrying amount	Fair value of collateral held
As at 31 December 2019				
Credit-impaired assets				
Loans and advances to customers				
Loans to corporate entities	59,469	(42,085)	17,384	18,839
Loans to individuals	18,574	(15,962)	2,612	10,559
Financial investments				
Financial investments at amortised cost	2,880	(808)	2,072	6,079
Debt investments at FVOCI	393	(393)	–	–

(b) 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 an offset 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 counterparty 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 each transaction subject to the arrangement affects credit risk.

3.1.4 Derivative instruments

The Group undertakes its transactions in foreign exchange, commodity, interest rate and other derivative contracts with other financial institutions and customers. The management has established limits for these contracts based on counterparties, industry sectors and countries. Actual credit exposures and limits are regularly monitored and controlled by management.

Credit risk-weighted amounts

	As at 30 June 2020	As at 31 December 2019
Counterparty credit risk-weighted amount	**45,915**	36,175

The credit risk-weighted amounts are the amounts calculated with reference to the guidelines issued by the CBIRC and are dependent on, amongst other factors, the creditworthiness of the counterparty and the maturity characteristics of each type of contract.

The credit risk-weighted amounts stated above have not taken the effects of netting arrangements into account.

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.5 Foreclosed assets

	As at 30 June 2020	As at 31 December 2019
Buildings	854	873
Land use rights	20	20
Others	14	14
Gross	888	907
Less: Impairment allowances	(140)	(148)
Net	748	759

Foreclosed assets are sold as soon as practicable with the proceeds used to reduce the outstanding indebtedness. The Group does not generally occupy foreclosed assets for its own business use. Foreclosed assets are classified as other assets in the statement of financial position.

3.1.6 Concentration risk analysis for financial assets with credit risk exposure

The Group mainly manages concentration risk for loans and advances to customers by industry sectors and also manages concentration risk for financial assets by geographical sectors.

Geographical sectors

	Mainland China	Hong Kong	Others	Total
As at 30 June 2020				
Financial assets				
Balances with central banks	746,104	21,276	18,979	786,359
Due from and placements with banks and other financial institutions	445,487	70,967	176,647	693,101
Derivative financial assets	20,184	6,075	1,871	28,130
Financial investments at FVPL	419,306	10,675	38,744	468,725
Loans and advances to customers	5,222,523	220,487	159,346	5,602,356
Financial investments at FVOCI	396,015	68,738	311,593	776,346
Financial investments at amortised cost	1,919,577	3,312	17,876	1,940,765
Other financial assets	36,717	19,488	4,120	60,325
	9,205,913	421,018	729,176	10,356,107
Off-balance sheet exposures				
Guarantees, acceptances and letters of credit	732,318	10,569	12,202	755,089
Loan commitments and other credit related commitments	780,081	28,400	14,711	823,192
	1,512,399	38,969	26,913	1,578,281

For the six months ended 30 June 2020
(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.6 Concentration risk analysis for financial assets with credit risk exposure (Continued)

Geographical sectors (Continued)

	Mainland China	Hong Kong	Others	Total
As at 31 December 2019				
Financial assets				
Balances with central banks	732,414	1,027	11,972	745,413
Due from and placements with banks and other financial institutions	546,171	30,082	72,235	648,488
Derivative financial assets	15,636	4,295	1,006	20,937
Financial investments at FVPL	321,366	10,064	25,351	356,781
Loans and advances to customers	4,792,758	218,575	172,320	5,183,653
Financial investments at FVOCI	347,311	112,537	200,863	660,711
Financial investments at amortised cost	1,915,749	4,181	9,759	1,929,689
Other financial assets	37,301	15,414	2,513	55,228
	8,708,706	396,175	496,019	9,600,900
Off-balance sheet exposures				
Guarantees, acceptances and letters of credit	652,860	13,761	13,646	680,267
Loan commitments and other credit related commitments	750,807	30,572	10,524	791,903
	1,403,667	44,333	24,170	1,472,170

(a) Geographical risk concentration for loans and advances to customers

	As at 30 June 2020		As at 31 December 2019	
		%		%
Northern China (1)	**721,654**	**12.60**	689,601	13.00
North Eastern China (2)	**224,615**	**3.92**	212,871	4.01
Eastern China (3)	**1,989,225**	**34.71**	1,830,275	34.51
Central and Southern China (4)	**1,265,117**	**22.08**	1,106,903	20.87
Western China (5)	**606,545**	**10.59**	532,796	10.04
Overseas (6)	**385,018**	**6.72**	391,517	7.38
Head Office	**537,339**	**9.38**	540,312	10.19
Gross amount of loans and advances	**5,729,513**	**100.00**	5,304,275	100.00

Note: (1) Including Beijing, Tianjin, Hebei Province, Shanxi Province and Inner Mongolia Autonomous Region.

(2) Including Liaoning Province, Jilin Province and Heilongjiang Province.

(3) Including Shanghai (excluding Head Office), Jiangsu Province, Zhejiang Province, Anhui Province, Fujian Province, Jiangxi Province and Shandong Province.

(4) Including Henan Province, Hunan Province, Hubei Province, Guangdong Province, Hainan Province and Guangxi Zhuang Autonomous Region.

(5) Including Chongqing, Sichuan Province, Guizhou Province, Yunnan Province, Shaanxi Province, Gansu Province, Qinghai Province, Ningxia Autonomous Region and Xinjiang Uyghur Autonomous Region.

(6) Including Hong Kong, New York, Tokyo, Singapore, Seoul, Frankfurt, Macau, Ho Chi Minh City, San Francisco, Sydney, Taipei, London, Luxembourg, Brisbane, Paris, Rome, Brazil, Toronto, Melbourne, Prague, and other overseas affiliates.

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.6 Concentration risk analysis for financial assets with credit risk exposure *(Continued)*

(b) Industry analysis for loans and advances to customers

	As at 30 June 2020	%	As at 31 December 2019	%
Corporate loans				
Mining	**122,389**	**2.14**	117,555	2.22
Manufacturing				
– Petroleum and chemical	**124,012**	**2.16**	106,108	2.00
– Electronics	**140,977**	**2.46**	95,736	1.80
– Steel	**44,267**	**0.77**	35,156	0.66
– Machinery	**96,512**	**1.68**	93,393	1.76
– Textile and clothing	**29,008**	**0.51**	27,049	0.51
– Other manufacturing	**260,316**	**4.54**	243,701	4.60
Production and supply of power, heat, gas and water	**218,600**	**3.82**	215,642	4.07
Construction	**157,219**	**2.74**	135,998	2.56
Transportation, storage and postal service	**677,212**	**11.82**	637,943	12.03
Information transmission, software and IT services	**40,481**	**0.71**	28,346	0.53
Wholesale and retail	**222,936**	**3.89**	221,381	4.17
Accommodation and catering	**34,041**	**0.59**	32,259	0.61
Finance	**113,221**	**1.98**	107,865	2.03
Real estate	**320,728**	**5.60**	264,495	4.99
Leasing and commercial services	**539,270**	**9.41**	508,863	9.59
Water conservancy, environmental and other public services	**323,342**	**5.64**	284,797	5.37
Education, science, culture and public health	**109,823**	**1.92**	96,875	1.83
Others	**94,468**	**1.65**	93,314	1.76
Discounted bills	**231,285**	**4.04**	203,034	3.83
Total corporate loans	**3,900,107**	**68.07**	3,549,510	66.92
Individual loans				
Mortgages	**1,196,808**	**20.89**	1,135,428	21.41
Credit cards	**445,266**	**7.77**	467,387	8.81
Others	**187,332**	**3.27**	151,950	2.86
Total individual loans	**1,829,406**	**31.93**	1,754,765	33.08
Gross amount of loans and advances before impairment allowances	**5,729,513**	**100.00**	5,304,275	100.00

Note: The classification of industries is consistent with the latest national standards for industry classification (Industrial classification for national economic activities (GB/T 4754-2017) issued by SAC and AQSIQ in 2017).

The industry risk concentration analysis for loans and advances to customers is based on the type of industry of the borrowers.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk

3.2.1 Overview

Market risk is risk of loss on the Group's on balance sheet and off balance sheet businesses, which is originated from the unfavourable changes and fluctuations in interest rates, foreign exchange rates, commodity price and equity product price. Market risk consists of interest rate risk, foreign exchange rate risk, commodity price risk and equity product price risk. The market risk of the Group mainly comprises interest rate risk and foreign exchange risk.

The Group established a management model of "large and small middle offices" for its market risk management, which is a centralised control framework led by Board of Directors, Board of Supervisors and senior management. The risk management department takes the lead in the Group's market risk management, while business units such as financial markets department, domestic and overseas branches and subsidiaries are the execution units of the Bank's market risk management. The internal audit department is responsible for the internal audit of the market risk management system of the Bank.

In accordance with the requirements of the CBIRC, the Group's financial instrument positions are divided into trading book and banking book. The trading book consists of financial instruments held either for trading intent or economic hedging for other elements of the trading book. The banking book consists of all financial instruments other than those included in trading book. The Group recognises, measures, monitors and controls the market risks in trading book and banking book according to their nature and characteristics.

With regard to the exchange rate risk and the interest rate risk of trading book, the Group established an effective limit management system by implementing Net Position, Risk Sensitivity, Value at Risk ("VaR") and other indicators. Meanwhile, with regard to the interest risk of banking book, net interest income sensitivity tests and gap analysis are the major tools used by the Group to monitor the interest risk of its overall businesses. In addition, through adequate repricing management and structure adjustment of assets and liabilities, the Group strives to maximise its rate of return while keeping its risks under control.

The Group has continuously improved the management system of market risk. The Group conducted stress tests on historical scenarios and hypothetical scenarios in the consideration of the Group's major market risk factors. The Group has realised daily automatic collection of trading data and market data in the system. The Group conducted the management of risk capital and VaR quota and formulated the quota allocation plans.

The Group also applies sensitivity analysis to assess and measure the market risk of trading book and banking book. Sensitivity analysis indicates the impact on the relevant market risk assuming that only a single variable changes. As any risk variable rarely changes isolatedly, and the correlation between variables will have a significant effect on the final impact amount of the change of a risk variable, the results of sensitivity analysis can only provide limited market risk information.

The major measurement techniques used to measure and control market risk are outlined below:

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.2 VaR

VaR refers to the maximum loss that an investment portfolio may incur at a given confidence level and holding period caused by the changes in market price factors such as interest rates and exchange rates etc. The Group adopted the historical simulation method to calculate daily VaR (99% confidence interval, the holding period of one day).

A summary of VaR by risk type of the Group's portfolios is as follows:

		Six months ended 30 June 2020		
Items	**30 June 2020**	**Average**	**Maximum**	**Minimum**
VaR	**455**	**487**	**552**	**441**
Including: Interest rate risk	**357**	**289**	**472**	**127**
Foreign exchange risk	**441**	**474**	**526**	**419**

		Six months ended 30 June 2019		
Items	30 June 2019	Average	Maximum	Minimum
VaR	617	607	674	545
Including: Interest rate risk	182	181	209	145
Foreign exchange risk	669	656	695	597

3.2.3 Sensitivity analysis

Interest rate sensitivity analysis

The table below illustrates the impact on net profit of the Group for the following year based on the structure of financial assets and liabilities as at the date of statement of financial position, resulting from a parallel upward or downward shift of 100 basis points in related yield curves.

	Changes in net profit	
	As at 30 June 2020	As at 31 December 2019
+100 basis points parallel shift in yield curves	**9,381**	15,794
-100 basis points parallel shift in yield curves	**(9,381)**	(15,794)

The table below illustrates the impact on other comprehensive income of the Group for the following year based on the structure of financial assets and liabilities as at the date of statement of financial position, resulting from a parallel upward or downward shift of 100 basis points in related yield curves.

	Changes in other comprehensive income	
	As at 30 June 2020	As at 31 December 2019
+100 basis points parallel shift in yield curves	**(12,076)**	(11,748)
-100 basis points parallel shift in yield curves	**12,397**	11,570

The above-mentioned impact on other comprehensive income arises from the changes in the fair value of fixed-interest-rate bonds at fair value through other comprehensive income, and loans and advances to customers at fair value through other comprehensive income.

For the six months ended 30 June 2020
(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.3 Sensitivity analysis *(Continued)*

Interest rate sensitivity analysis (Continued)

The results of the interest rate sensitivity analysis set out in the table above are illustrative only and are based on simplified scenarios. The figures represent the projected impact to the net profit and other comprehensive income caused by the projected movement of current interest risk structure yield curves. This effect, however, does not take into account actions that would be taken by the Group to mitigate the impact of interest rate changes. The projections above also assume that interest rates of all maturities excluding demand deposits move by the same amount and, therefore, do not reflect the potential impact on net profit due to changes in certain rates while others remain unchanged. The projections are based on other simplified assumptions as well, including that all positions are to be held to maturity. There will be changes to the projection if positions are not held to maturity but it is not expected that the changes would be material.

The Group believes the assumption does not represent the Group's policy on use of funds and interest rate risk management. As a result, the above impact may differ from the actual situation.

Foreign exchange sensitivity analysis

The table below illustrates the impact of a concurrent appreciation or depreciation of RMB spot and forward rates against HKD and USD by 5% on the Group's net profit:

	Changes in net profit	
	As at 30 June 2020	As at 31 December 2019
5% appreciation of RMB	**(1,357)**	(1,758)
5% depreciation of RMB	**1,357**	1,758

The table below illustrates the impact of a concurrent appreciation or depreciation of RMB spot and forward rates against HKD and USD by 5% on the Group's other comprehensive income:

	Changes in other comprehensive income	
	As at 30 June 2020	As at 31 December 2019
5% appreciation of RMB	**(1,038)**	(954)
5% depreciation of RMB	**1,038**	954

The impact on net profit arises from the influences of RMB exchange rate fluctuation on the net position of monetary assets (excluding other book value other than amortised cost of monetary assets at fair value through other comprehensive income) and liabilities denominated in foreign currencies, the net position of non-monetary financial assets (excluding non-monetary items denominated in foreign currencies measured at fair value through other comprehensive income) and liabilities denominated in foreign currencies measured at fair value, and the fair value of currency derivatives denominated in RMB.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.3 Sensitivity analysis *(Continued)*

Foreign exchange sensitivity analysis (Continued)

The impact on other comprehensive income arises from the influences of RMB exchange rate fluctuation on the differences on translation of foreign currency financial statements of foreign operators, the overseas investment portion of monetary assets denominated in foreign currencies, other book value other than amortised cost of the non-monetary items denominated in foreign currencies measured at fair value through other comprehensive income (such as stock) and monetary items at fair value through other comprehensive income.

The above impact on net profit is based on the assumption that the sensitive position of the Group's period-end exchange rate and currency derivatives denominated in RMB remain unchanged during the reporting period. While in practice, the Group will, based on its judgement on the trend of exchange rate, actively adjust the foreign currency position and use appropriate derivative instruments to mitigate the impact of the foreign currency risk. Therefore, the above impact might differ from the actual situation.

3.2.4 Interest rate risk

The Group's interest rate risk mainly arises from interest rate repricing and maturity mismatching of assets and liabilities, and the fluctuation of market interest rates, as well as from the adjustments in the interest rate policies made by the People's Bank of China ("PBOC"). On 20 July 2013, PBOC cancelled the lower limit of benchmark interest rates of loans dominated in RMB, allowing financial institutions to determine the loan interest rates independently based on commercial principles. On 24 October 2015, PBOC cancelled the upper limit of the benchmark interest rates for deposits. The Group conducts most of its domestic businesses including loans and deposits as well as the majority of its financial guarantees and credit commitments at benchmark interest rates published by PBOC. On 20 August 2019, the first quotation formed in accordance with the new Loan Prime Rate (LPR) mechanism was officially launched, and the newly issued loans are priced mainly at LPR. On 28 December 2019, PBOC announced that financial institutions should complete the conversion of the pricing benchmark of existing floating rate loans to LPR between March and August in 2020. Therefore, the Group organised a team to promote the processes, developing the implementation plan and offering guidances to the conversion, and managing the interest rate risks effectively at the same time. The Group has initially established a relatively complete interest rate risk monitoring system. By using the gap analysis system, the Group regularly monitors the repricing maturity gap of interest rate-sensitive assets and liabilities throughout the Group, takes the initiative to adjust the proportion of interest-bearing assets at floating interest rates and fixed interest rates, and adjusts the repricing term structure of interest rate and manages interest rate risk by applying appropriate derivatives such as interest rate swaps based on allocation strategy of assets and liabilities. Consequently, the Group is less vulnerable to interest rate risk.

During the reporting period, the Group closely monitored the interest rate trend for RMB and foreign currencies, conducted specific management of risk limits, and strengthened comprehensive operations and limit monitoring. In addition, the Group, by rationally adjusting the loan repricing strategies, reinforced the specific management of price negotiation to maximise its rate of return while keeping its risks under control.

For the six months ended 30 June 2020
(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.4 Interest rate risk *(Continued)*

At the date of statement of financial position, the Group's assets and liabilities categorised by the repricing date or maturity date (whichever is earlier) are as follows:

	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Non-interest bearing	Total
As at 30 June 2020							
Assets							
Cash and balances with central banks	776,368	–	–	–	–	24,778	801,146
Due from and placements with banks and other financial institutions	314,870	109,623	180,154	69,053	13,999	5,402	693,101
Derivative financial assets	–	–	–	–	–	28,130	28,130
Financial investments at FVPL	22,272	35,331	41,914	32,985	46,752	340,290	519,544
Loans and advances to customers	775,800	696,478	3,459,803	240,664	126,780	302,831	5,602,356
Financial investments at FVOCI	76,032	148,631	82,466	279,821	181,737	18,150	786,837
Financial investments at amortised cost	45,000	59,264	261,316	897,203	650,059	27,923	1,940,765
Other assets	499	–	–	–	–	297,554	298,053
Total assets	2,010,841	1,049,327	4,025,653	1,519,726	1,019,327	1,045,058	10,669,932
Liabilities							
Due to and placements from banks and other financial institutions	(886,264)	(360,707)	(616,171)	(22,459)	(17,218)	(13,940)	(1,916,759)
Financial liabilities at FVPL	(5,404)	(9,250)	(8,389)	(1,304)	–	(2,569)	(26,916)
Derivative financial liabilities	–	–	–	–	–	(41,303)	(41,303)
Due to customers	(3,468,389)	(661,169)	(954,651)	(1,387,062)	(52)	(89,544)	(6,560,867)
Other liabilities	(74,673)	(120,677)	(523,734)	(227,456)	(176,712)	(186,703)	(1,309,955)
Total liabilities	(4,434,730)	(1,151,803)	(2,102,945)	(1,638,281)	(193,982)	(334,059)	(9,855,800)
Total interest sensitivity gap	(2,423,889)	(102,476)	1,922,708	(118,555)	825,345	710,999	814,132

	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Non-interest bearing	Total
As at 31 December 2019							
Assets							
Cash and balances with central banks	729,335	–	–	–	–	30,850	760,185
Due from and placements with banks and other financial institutions	217,899	94,206	262,663	57,535	10,639	5,546	648,488
Derivative financial assets	–	–	–	–	–	20,937	20,937
Financial investments at FVPL	24,970	27,425	49,446	39,634	35,329	229,694	406,498
Loans and advances to customers	2,422,040	475,631	1,695,459	190,829	91,463	308,231	5,183,653
Financial investments at FVOCI	61,795	152,393	87,723	243,110	109,231	15,404	669,656
Financial investments at amortised cost	21,782	39,197	249,195	1,027,815	562,411	29,289	1,929,689
Other assets	493	–	–	–	–	286,001	286,494
Total assets	3,478,314	788,852	2,344,486	1,558,923	809,073	925,952	9,905,600
Liabilities							
Due to and placements from banks and other financial institutions	(720,024)	(273,836)	(837,746)	(39,236)	(19,803)	(13,437)	(1,904,082)
Financial liabilities at FVPL	(4,103)	(6,006)	(6,779)	(8,190)	–	(1,902)	(26,980)
Derivative financial liabilities	–	–	–	–	–	(26,424)	(26,424)
Due to customers	(3,188,008)	(668,974)	(998,242)	(1,102,269)	(26,026)	(89,389)	(6,072,908)
Other liabilities	(47,541)	(123,654)	(391,494)	(241,821)	(136,354)	(133,430)	(1,074,294)
Total liabilities	(3,959,676)	(1,072,470)	(2,234,261)	(1,391,516)	(182,183)	(264,582)	(9,104,688)
Total interest sensitivity gap	(481,362)	(283,618)	110,225	167,407	626,890	661,370	800,912

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.5 Foreign exchange risk

The Group conducts the majority of its businesses in RMB, and the recording currency is RMB. Certain foreign transactions are conducted in USD, HKD and other currencies. The exchange rate of RMB to USD, HKD or other currencies is subject to the trading rules of China Foreign Exchange Trade System. Exchange rate risk mainly results from currency mismatch of foreign currency assets and liabilities and off balance sheet currency exposures. The Group has formulated management measures for exchange rate risks, defining the functional division and scope of work of the exchange rate risk management department, risk identification, measurement, monitoring and control methods, and specific measures. Moreover, the Group controls exchange rate risk by setting relevant limits, taking the initiative to adjust the structure of foreign currency assets for a proper matching of currency structure of assets and liabilities, and applying appropriate exchange rate financial derivatives for transfers and hedging based on its own risk tolerance and operating level.

As at 30 June 2020, the exchange rates for US dollar and HK dollar are 1 US dollar to RMB7.0795 (31 December 2019: RMB6.9762) and 1 HK dollar to RMB0.9134 (31 December 2019: RMB0.8958), respectively.

Carrying amounts of the Group's total assets and liabilities categorised by the original currency as at the date of statement of financial position are as follows:

	RMB	USD (RMB Equivalent)	HKD (RMB Equivalent)	Others (RMB Equivalent)	Total
As at 30 June 2020					
Assets					
Cash and balances with central banks	745,119	20,384	22,129	13,514	801,146
Due from and placements with banks and other financial institutions	270,729	374,966	30,001	17,405	693,101
Derivative financial assets	24,525	1,807	1,326	472	28,130
Financial investments at FVPL	437,324	56,094	2,347	23,779	519,544
Loans and advances to customers	5,059,724	309,987	156,703	75,942	5,602,356
Financial investments at FVOCI	357,387	323,666	48,803	56,981	786,837
Financial investments at amortised cost	1,919,980	17,789	18	2,978	1,940,765
Other assets	142,982	145,308	8,359	1,404	298,053
Total assets	8,957,770	1,250,001	269,686	192,475	10,669,932
Liabilities					
Due to and placements from banks and other financial institutions	(1,455,448)	(398,751)	(7,651)	(54,909)	(1,916,759)
Financial liabilities at FVPL	(3,154)	(1,759)	(9,214)	(12,789)	(26,916)
Derivative financial liabilities	(24,560)	(14,256)	(1,366)	(1,121)	(41,303)
Due to customers	(5,814,775)	(394,133)	(314,657)	(37,302)	(6,560,867)
Other liabilities	(1,085,298)	(186,905)	(17,359)	(20,393)	(1,309,955)
Total liabilities	(8,383,235)	(995,804)	(350,247)	(126,514)	(9,855,800)
Net position	574,535	254,197	(80,561)	65,961	814,132
Financial guarantees and credit-related commitments	1,426,959	112,751	23,689	14,882	1,578,281

For the six months ended 30 June 2020

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.5 *Foreign exchange risk* *(Continued)*

	RMB	USD (RMB Equivalent)	HKD (RMB Equivalent)	Others (RMB Equivalent)	Total
As at 31 December 2019					
Assets					
Cash and balances with central banks	730,031	17,082	1,874	11,198	760,185
Due from and placements with banks and other financial institutions	296,047	308,665	22,958	20,818	648,488
Derivative financial assets	17,991	1,503	1,206	237	20,937
Financial investments at FVPL	336,039	43,167	2,947	24,345	406,498
Loans and advances to customers	4,664,589	282,461	162,892	73,711	5,183,653
Financial investments at FVOCI	277,710	282,552	55,646	53,748	669,656
Financial investments at amortised cost	1,910,731	16,213	–	2,745	1,929,689
Other assets	142,776	132,093	10,646	979	286,494
Total assets	8,375,914	1,083,736	258,169	187,781	9,905,600
Liabilities					
Due to and placements from banks and other financial institutions	(1,489,552)	(354,673)	(7,031)	(52,826)	(1,904,082)
Financial liabilities at FVPL	(2,273)	(1,882)	(10,963)	(11,862)	(26,980)
Derivative financial liabilities	(21,149)	(3,058)	(1,815)	(402)	(26,424)
Due to customers	(5,403,579)	(391,803)	(241,714)	(35,812)	(6,072,908)
Other liabilities	(844,270)	(187,717)	(22,048)	(20,259)	(1,074,294)
Total liabilities	(7,760,823)	(939,133)	(283,571)	(121,161)	(9,104,688)
Net position	615,091	144,603	(25,402)	66,620	800,912
Financial guarantees and credit-related commitments	1,327,987	110,286	18,482	15,415	1,472,170

3.2.6 *Other price risk*

The Group is exposed to other price risk arising from financial assets such as equity investments and derivatives linked to commodity price. The equity investments arise from the proprietary trading of the Group's subsidiaries which hold the qualification of securities dealing and brokerage as well. As for the proprietary trading exposure, the Group enforces strict management of the risk exposure limit and the balance is insignificant to the Group's financial assets. The Group considers the exposure to the other price risk to be insignificant.

3.3 Liquidity risk

3.3.1 *Overview*

Liquidity risk is the risk that occurs when the Group cannot obtain sufficient funds in time and at a reasonable cost to repay debts when they are due, fulfill other payment obligations, or meet other funding needs in the normal course of business. The Group's liquidity risk mainly comes from depositors' early or centralised withdrawals, borrowers' deferred repayment of loans, the amount of assets and liabilities and maturity mismatches.

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk *(Continued)*

3.3.2 Liquidity risk management process

The Group implements centralised management of liquidity risk and, on the basis of forecasting liquidity requirements, formulates corresponding liquidity management plans and actively manages the liquidity of the Bank. The specific measures mainly include:

- Pay close attention to changes in the macroeconomic situation, central bank monetary policy, capital market dynamics, etc.
- Enhance weighting of core deposits as a percentage of liabilities, so as to maintain the stability of liabilities;
- Monitor and manage liquidity position bank-wide by implementing a series of indicators and restrictions;
- Liquidity position management and cash utilisation functions are centralised by the Head offices;
- Maintain an appropriate level of central bank reserves, overnight inter-bank transactions, highly liquid debt investment, actively involve in capital management through open market, monetary market and bond market in order to ensure optimal financing capability at market places;
- Minimise liquidity risk by proper management of asset maturity structures and multi-level liquidity portfolios.

3.3.3 Non-derivative financial instruments cash flows

The table below presents the structural analysis by contracted maturities on non-derivative financial assets and liabilities of the Group at the balance sheet date. The amount of financial assets and liabilities for each period is the amount of undiscounted cash flows The Group's expected cash flows on these financial instruments may vary significantly from the following analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance although they have been classified as repayable on demand in the following tables.

	Overdue	Undated	On Demand	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
As at 30 June 2020									
Liabilities									
Due to and placements from banks and other financial institutions	–	–	(609,065)	(280,433)	(367,290)	(633,551)	(24,285)	(17,629)	(1,932,253)
Financial liabilities at FVPL	–	–	(1,980)	(5,447)	(7,219)	(10,669)	(1,813)	–	(27,128)
Due to customers	–	–	(2,789,846)	(717,938)	(675,563)	(989,877)	(1,505,689)	(61)	(6,678,974)
Certificates of deposit issued	–	–	–	(61,316)	(84,030)	(463,225)	(21,163)	–	(629,734)
Debt securities issued	–	–	–	(2,786)	(7,083)	(81,381)	(265,376)	(168,813)	(525,439)
Other financial liabilities	–	–	(86,519)	(24,728)	(1,891)	(918)	(14,221)	(35,290)	(163,567)
Total liabilities (contractual maturity dates)	–	–	(3,487,410)	(1,092,648)	(1,143,076)	(2,179,621)	(1,832,547)	(221,793)	(9,957,095)
Assets									
Cash and balances with central banks	–	633,975	166,911	–	260	–	–	–	801,146
Due from and placements with banks and other financial institutions	–	–	75,875	240,920	112,213	184,297	71,930	15,706	700,941
Financial investments at FVPL	–	328,011	12,126	7,449	23,321	47,842	60,611	62,042	541,402
Loans and advances to customers	46,623	–	–	609,501	369,362	1,533,473	1,793,545	3,447,353	7,799,857
Financial investments at FVOCI	114	10,491	–	17,977	29,546	130,504	468,163	203,900	860,695
Financial investments at amortised cost	843	–	–	46,547	63,355	310,607	1,080,378	756,793	2,258,523
Other financial assets	4,920	–	55,405	–	–	–	–	–	60,325
Assets held for managing liquidity risk (contractual maturity dates)	52,500	972,477	310,317	922,394	598,057	2,206,723	3,474,627	4,485,794	13,022,889
Net position	52,500	972,477	(3,177,093)	(170,254)	(545,019)	27,102	1,642,080	4,264,001	3,065,794

For the six months ended 30 June 2020
(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk *(Continued)*

3.3.3 Non-derivative financial instruments cash flows *(Continued)*

	Overdue	Undated	On Demand	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
As at 31 December 2019									
Liabilities									
Due to and placements from banks and other financial institutions	–	–	(409,571)	(312,459)	(279,062)	(861,415)	(41,653)	(24,479)	(1,928,639)
Financial liabilities at FVPL	–	–	(1,087)	(4,129)	(6,110)	(7,644)	(8,370)	–	(27,340)
Due to customers	–	–	(2,608,940)	(620,749)	(687,767)	(1,032,419)	(1,184,740)	(26,470)	(6,161,085)
Certificates of deposit issued	–	–	–	(47,583)	(112,660)	(326,884)	(19,723)	(104)	(506,954)
Debt securities issued	–	–	–	(356)	(11,595)	(83,202)	(246,898)	(124,044)	(466,095)
Other financial liabilities	–	–	(62,915)	(157)	(980)	(994)	(9,289)	(31,022)	(105,357)
Total liabilities (contractual maturity dates)	–	–	(3,082,513)	(985,433)	(1,098,174)	(2,312,558)	(1,510,673)	(206,119)	(9,195,470)
Assets									
Cash and balances with central banks	–	669,268	90,626	–	291	–	–	–	760,185
Due from and placements with banks and other financial institutions	–	–	68,990	150,526	96,100	271,267	60,169	13,316	660,368
Financial investments at FVPL	–	221,829	7,455	5,633	17,275	53,313	68,842	53,129	427,476
Loans and advances to customers	41,983	–	–	662,690	350,205	1,349,166	1,675,654	3,135,246	7,214,944
Financial investments at FVOCI	–	8,945	–	11,356	37,795	124,191	422,104	127,664	732,055
Financial investments at amortised cost	740	–	–	22,301	39,748	303,842	1,206,797	628,632	2,202,060
Other financial assets	4,524	–	45,990	–	–	–	–	–	50,514
Assets held for managing liquidity risk (contractual maturity dates)	47,247	900,042	213,061	852,506	541,414	2,101,779	3,433,566	3,957,987	12,047,602
Net position	47,247	900,042	(2,869,452)	(132,927)	(556,760)	(210,779)	1,922,893	3,751,868	2,852,132

Assets available to repay all of the liabilities and fulfill loan commitments include cash, balances with central banks, due from and placements with banks and other financial institutions, financial investment at fair value through profit or loss, etc. In the normal course of business, a majority of matured deposits will not be withdrew immediately on the maturity date but will continue to be kept by the Group. In addition, financial investments at fair value through other comprehensive income can also be disposed of when necessary to obtain funds for repayment of matured debts.

3.3.4 Derivative financial instruments cash flows

The Group's derivative financial instruments are either settled on a net basis or a gross basis.

(a) Derivative settled on a net basis

The Group's derivative financial instruments that will be settled on a net basis include foreign exchange contracts, commodity contracts, interest rate contracts and others.

The table below analyses the undiscounted cash flows of the Group's derivative financial instruments which will be settled on a net basis and are classified based on the remaining contractual period from the balance sheet date to maturity date.

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk *(Continued)*

3.3.4 Derivative financial instruments cash flows *(Continued)*

(a) Derivative settled on a net basis (Continued)

	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
As at 30 June 2020						
Assets						
Derivative financial instruments						
– Foreign exchange and commodity contracts	2	1	165	–	–	168
– Interest rate contracts and others	768	1,258	4,807	11,061	174	18,068
Total	770	1,259	4,972	11,061	174	18,236
Liabilities						
Derivative financial instruments						
– Foreign exchange and commodity contracts	–	(11)	(42)	–	–	(53)
– Interest rate contracts and others	(855)	(1,633)	(6,301)	(17,798)	(1,785)	(28,372)
Total	(855)	(1,644)	(6,343)	(17,798)	(1,785)	(28,425)

	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
As at 31 December 2019						
Assets						
Derivative financial instruments						
– Foreign exchange and commodity contracts	–	–	–	–	–	–
– Interest rate contracts and others	163	315	1,148	2,547	208	4,381
Total	163	315	1,148	2,547	208	4,381
Liabilities						
Derivative financial instruments						
– Foreign exchange and commodity contracts	(203)	(728)	(1,545)	–	–	(2,476)
– Interest rate contracts and others	(178)	(396)	(1,387)	(3,720)	(526)	(6,207)
Total	(381)	(1,124)	(2,932)	(3,720)	(526)	(8,683)

For the six months ended 30 June 2020
(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk *(Continued)*

3.3.4 *Derivative financial instruments cash flows* (Continued)

(b) *Derivative settled on a gross basis*

The Group's derivative financial instruments that will be settled on a gross basis mainly include currency and commodity derivatives. The table below analyses the undiscounted cash flows of the Group's derivative financial instruments which will be settled on a gross basis and are classified based on the remaining contractual period from the balance sheet date to maturity date.

	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
As at 30 June 2020						
Derivative financial instruments settled on a gross basis						
– Outflow	(835,295)	(675,378)	(1,129,759)	(93,136)	(5,357)	(2,738,925)
– Inflow	834,338	672,872	1,126,093	93,462	7,017	2,733,782
Total	**(957)**	**(2,506)**	**(3,666)**	**326**	**1,660**	**(5,143)**

	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
As at 31 December 2019						
Derivative financial instruments settled on a gross basis						
– Outflow	(652,146)	(611,954)	(1,031,667)	(96,867)	(1,451)	(2,394,085)
– Inflow	652,036	610,048	1,028,315	96,800	3,443	2,390,642
Total	(110)	(1,906)	(3,352)	(67)	1,992	(3,443)

3.3.5 *Maturity analysis*

The table below analyses the Group's assets and liabilities into relevant maturity groupings based on the remaining period at the end of reporting date to the contractual maturity date.

	On demand	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Overdue	Undated	Total
As at 30 June 2020									
Assets									
Cash and balances with central banks	166,911	–	260	–	–	–	–	633,975	801,146
Due from and placements with banks and other financial institutions	75,875	240,003	111,098	181,851	70,227	14,047	–	–	693,101
Derivative financial assets	–	2,506	2,461	7,235	14,194	1,734	–	–	28,130
Financial investments at FVPL	12,126	7,312	22,942	44,629	49,886	55,745	–	326,904	519,544
Loans and advances to customers	–	590,759	333,023	1,393,533	1,250,686	1,997,037	37,318	–	5,602,356
Financial investments at FVOCI	–	17,730	28,757	119,763	426,545	183,437	114	10,491	786,837
Financial investments at amortised cost	–	46,219	59,859	272,630	911,034	650,180	843	–	1,940,765
Other assets	73,185	72	29	10,244	19,782	3,892	851	189,998	298,053
Total assets	328,097	904,601	558,429	2,029,885	2,742,354	2,906,072	39,126	1,161,368	10,669,932
Liabilities									
Due to and placements from banks and other financial institutions	(609,065)	(280,082)	(365,401)	(622,319)	(22,581)	(17,311)	–	–	(1,916,759)
Financial liabilities at FVPL	(1,980)	(5,427)	(7,165)	(10,544)	(1,800)	–	–	–	(26,916)
Derivative financial liabilities	–	(3,412)	(3,298)	(9,094)	(19,879)	(5,620)	–	–	(41,303)
Due to customers	(2,786,442)	(714,711)	(671,396)	(972,456)	(1,415,810)	(52)	–	–	(6,560,867)
Other liabilities	(86,519)	(91,491)	(109,424)	(540,378)	(298,436)	(183,707)	–	–	(1,309,955)
Total liabilities	(3,484,006)	(1,095,123)	(1,156,684)	(2,154,791)	(1,758,506)	(206,690)	–	–	(9,855,800)
Net amount on liquidity gap	(3,155,909)	(190,522)	(598,255)	(124,906)	983,848	2,699,382	39,126	1,161,368	814,132

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk *(Continued)*

3.3.5 Maturity analysis *(Continued)*

	On demand	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Overdue	Undated	Total
As at 31 December 2019									
Assets									
Cash and balances with central banks	90,626	–	291	–	–	–	–	669,268	760,185
Due from and placements with banks and other financial institutions	68,990	149,937	95,479	265,628	57,812	10,642	–	–	648,488
Derivative financial assets	–	3,350	4,941	7,339	3,971	1,336	–	–	20,937
Financial investments at FVPL	7,455	5,468	16,748	50,326	58,460	47,292	–	220,749	406,498
Loans and advances to customers	–	645,176	316,350	1,217,899	1,168,046	1,802,390	33,792	–	5,183,653
Financial investments at FVOCI	–	11,231	36,586	112,932	386,254	113,708	–	8,945	669,656
Financial investments at amortised cost	–	21,690	36,753	267,765	1,040,314	562,427	740	–	1,929,689
Other assets	65,540	5	15	7,807	20,326	3,802	696	188,303	286,494
Total assets	232,611	836,857	507,163	1,929,696	2,735,183	2,541,597	35,228	1,087,265	9,905,600
Liabilities									
Due to and placements from banks and other financial institutions	(409,571)	(312,213)	(276,142)	(846,554)	(39,762)	(19,840)	–	–	(1,904,082)
Financial liabilities at FVPL	(1,087)	(4,103)	(6,026)	(7,453)	(8,311)	–	–	–	(26,980)
Derivative financial liabilities	–	(3,494)	(5,876)	(10,477)	(5,121)	(1,456)	–	–	(26,424)
Due to customers	(2,608,492)	(616,996)	(680,301)	(1,018,114)	(1,122,574)	(26,431)	–	–	(6,072,908)
Other liabilities	(60,594)	(50,219)	(145,757)	(398,664)	(277,546)	(141,514)	–	–	(1,074,294)
Total liabilities	(3,079,744)	(987,025)	(1,114,102)	(2,281,262)	(1,453,314)	(189,241)	–	–	(9,104,688)
Net amount on liquidity gap	(2,847,133)	(150,168)	(606,939)	(351,566)	1,281,869	2,352,356	35,228	1,087,265	800,912

3.3.6 Off-balance sheet items

The off-balance sheet items of the Group primarily comprise loan commitments, credit card commitments, letter of credit commitments, guarantee and letters of guarantee issued, acceptance notes, etc. The table below lists the liquidity analysis of the off-balance sheet items of the Group, and financial guarantees are included at notional amounts and based on the earliest contractual maturity date.

	Up to 1 year	1 – 5 years	Over 5 years	Total
As at 30 June 2020				
Loan commitments and other credit related commitments	**784,205**	**23,444**	**15,543**	**823,192**
Guarantees, acceptances and letters of credit	**636,003**	**110,951**	**8,135**	**755,089**
Total	**1,420,208**	**134,395**	**23,678**	**1,578,281**
As at 31 December 2019				
Loan commitments and other credit related commitments	761,484	22,389	8,030	791,903
Guarantees, acceptances and letters of credit	570,426	104,593	5,248	680,267
Total	1,331,910	126,982	13,278	1,472,170

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.4 Fair value of financial assets and liabilities

(a) Determination of fair value and valuation techniques

Certain financial assets and liabilities of the Group are measured at fair value or with fair value disclosed for financial reporting purposes. The fair value has been determined using appropriate valuation techniques and inputs for fair value measurements. The appropriateness of the valuation techniques and the inputs to the fair value measurements are reviewed by the Board of Directors periodically.

Fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

(1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

(2) Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

(3) Level 3 inputs are unobservable inputs for the asset or liability.

The fair value of financial instruments with unadjusted quoted prices for identical instruments in active markets is determined by the open market quotations. These instruments are classified as level 1.

The Group uses valuation techniques to determine the fair value of financial instruments when an open market quotation in active markets is not obtainable.

If the key parameters used in valuation techniques for financial instruments (including debt securities and derivatives) are substantially observable and obtainable from active open market, the instruments are classified as level 2. The second hierarchy of financial instruments held by the Group includes over-the-counter derivatives, certificates of deposit without quotations from active market, loans and advances to customers carried at FVOCI, precious metals, debt securities issued and debt instruments trading in inter-bank market. The fair value of RMB denominated bonds is mainly valued based on the yield curves of the bonds from China Central Depository & Clearing Co., Ltd., while the fair value of the foreign currency denominated bonds is determined based on the valuation results published by Bloomberg. The fair value of foreign currency forwards, swaps and interest rate swaps, currency options is estimated by the discounted cash flow method and Black-Scholes model; the fair value of precious metal contract is mainly determined in accordance with the closing prices of the Shanghai Gold Exchange or the settlement prices of the Shanghai Futures Exchange. The main parameters used in discounted cash flow model include recent market prices, the relevant yield curve, exchange rates and counterparty’s credit spreads; main parameters used in Black-Scholes model include the relevant yield curve, exchange rate, level of volatilities and counterparty’s credit spreads, etc. All parameters used in valuation techniques are substantially observable and obtainable from active open market.

For trust and asset management plan at fair value through profit or loss, loans and advances to customers at fair value through other comprehensive income, the fair value is determined based on discounted cash flow model using unobservable discount rates that reflect credit risk and liquidity. These financial instruments are classified as Level 3.

For convertible bonds, unlisted equities, unlisted funds and equity derivatives held by the Group, the fair value of these financial instruments is determined with reference to certain unobservable inputs, and therefore the instruments have been classified by the Group as level 3. Management determines the fair value of these financial instruments using a variety of techniques, including using valuation models that incorporate and take into account unobservable inputs such as Discount for Lack of Marketability (DLOM). The Group has established internal control procedures to monitor the Group’s exposure to such financial instruments.

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.4 Fair value of financial assets and liabilities *(Continued)*

(b) Financial instruments not measured at fair value

The table below summarises the carrying amount and fair value of those financial assets and liabilities that are not presented at fair value as at the date of statement of financial position. Financial assets and liabilities with carrying amount approximate to fair value, such as cash and balances with central banks, due from and placements with banks and other financial institutions, loans and advances to customers, due to and placements from banks and other financial institutions, and due to customers, are not included in the table below.

	As at 30 June 2020		As at 31 December 2019	
	Carrying amount	**Fair value**	Carrying amount	Fair value
Financial assets				
Financial investments at amortised cost	**1,940,765**	**1,997,177**	1,929,689	1,954,341
Financial liabilities				
Debt securities issued	**(445,296)**	**(447,791)**	(383,481)	(388,177)

Fair value hierarchy of financial instruments not measured at fair value

As at 30 June 2020	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
Financial investments at amortised cost	**4,716**	**1,837,142**	**155,319**	**1,997,177**
Financial liabilities				
Debt securities issued	**–**	**(447,791)**	**–**	**(447,791)**

As at 31 December 2019	Level 1	Level 2	Level 3	Total
Financial assets				
Financial investments at amortised cost	7,655	1,806,199	140,487	1,954,341
Financial liabilities				
Debt securities issued	–	(388,177)	–	(388,177)

The carrying amounts and fair values of other financial assets and liabilities (including loans and advances to customers, due from and placements with banks and other financial institutions, due to and placements from banks and other financial institutions) are approximately the same, because the interest rates of most of these assets and liabilities are adjusted following the changes in interest rates determined by PBOC, other regulatory bodies or market.

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(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.4 Fair value of financial assets and liabilities *(Continued)*

(c) Financial assets and financial liabilities measured at fair value on a recurring basis

The financial assets and liabilities measured at fair value on a recurring basis by the three levels are analysed below:

As at 30 June 2020	Level 1	Level 2	Level 3	Total
At fair value through profit or loss				
Bond investments				
– Governments and central banks	2,694	3,037	–	5,731
– Public sector entities	–	1,541	–	1,541
– Banks and other financial institutions	10,602	82,899	107	93,608
– Corporate entities	4,998	49,959	3,734	58,691
Funds, trusts and debt investments	253	267,428	7,135	274,816
Equity securities and others	4,310	2,007	44,502	50,819
Precious metal contracts	–	29,193	–	29,193
Placements with banks and other financial institutions	–	5,145	–	5,145
Derivative financial instruments				
– Foreign exchange and commodity contracts	–	10,616	–	10,616
– Interest rate contracts and others	–	16,532	982	17,514
	22,857	468,357	56,460	547,674
At fair value through other comprehensive income				
Debt Investments at FVOCI				
– Governments and central banks	48,082	274,160	–	322,242
– Public sector entities	485	2,207	–	2,692
– Banks and other financial institutions	175,821	204,095	–	379,916
– Corporate entities	40,413	30,124	959	71,496
Investments in equity instruments designated at FVOCI	2,190	362	7,939	10,491
Loans and advances to customers designated at FVOCI	–	270,902	136	271,038
	266,991	781,850	9,034	1,057,875
Total assets	289,848	1,250,207	65,494	1,605,549
Financial liabilities at FVPL				
– Certificates of deposits issued	–	(11,696)	–	(11,696)
– Financial liabilities related to precious metal contracts	–	(14,769)	–	(14,769)
– Notes issued	–	(451)	–	(451)
Derivative financial instruments				
– Foreign exchange and commodity contracts	–	(15,139)	–	(15,139)
– Interest rate contracts and others	–	(26,164)	–	(26,164)
Debt securities issued	–	(14,109)	–	(14,109)
Total liabilities	–	(82,328)	–	(82,328)

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.4 Fair value of financial assets and liabilities *(Continued)*

(c) ***Financial assets and financial liabilities measured at fair value on a recurring basis*** *(Continued)*

As at 31 December 2019	Level 1	Level 2	Level 3	Total
At fair value through profit or loss				
Debt securities				
– Governments and central banks	4,220	3,382	–	7,602
– Public sector entities	–	2,000	–	2,000
– Banks and other financial institutions	8,757	79,922	104	88,783
– Corporate entities	4,625	28,178	3,762	36,565
Fund investments and other asset management products	56	158,698	11,681	170,435
Equity securities and others	2,576	–	47,141	49,717
Precious metal contracts	–	39,532	–	39,532
Placements with banks and other financial institutions	–	11,864	–	11,864
Derivative financial instruments				
– Foreign exchange and commodity contracts	–	15,784	–	15,784
– Interest rate contracts and others	–	4,145	1,008	5,153
	20,234	343,505	63,696	427,435
At fair value through other comprehensive income				
Debt Investments at FVOCI				
– Governments and central banks	57,694	201,265	–	258,959
– Public sector entities	136	1,972	–	2,108
– Banks and other financial institutions	134,110	195,593	–	329,703
– Corporate entities	39,804	29,299	838	69,941
Investments in equity instruments designated at FVOCI	1,895	421	6,629	8,945
Loans and advances to customers designated at FVOCI	–	235,361	53	235,414
	233,639	663,911	7,520	905,070
Total assets	253,873	1,007,416	71,216	1,332,505
Financial liabilities at FVPL				
– Certificates of deposits issued	–	(13,392)	–	(13,392)
– Financial liabilities related to precious metal contracts	–	(12,950)	–	(12,950)
– Notes issued	–	(638)	–	(638)
Derivative financial instruments				
– Foreign exchange and commodity contracts	–	(20,423)	–	(20,423)
– Interest rate contracts and others	–	(6,001)	–	(6,001)
Debt securities issued	–	(20,437)	–	(20,437)
Total liabilities	–	(73,841)	–	(73,841)

There was no transfer between level 1 and 2 during the period.

For the six months ended 30 June 2020
(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.4 Fair value of financial assets and liabilities *(Continued)*

(c) Financial assets and financial liabilities measured at fair value on a recurring basis *(Continued)*
Reconciliation of level 3 items

	Financial assets at FVPL	Financial assets at FVOCI
Balance at 1 January 2020	63,696	7,520
Total gains or losses		
– Profit/(losses)	1,096	(2)
– Other comprehensive income	–	(665)
Additions	1,149	2,229
Disposals and settlement	(8,510)	(48)
Transfer to other levels	(971)	–
Balance at 30 June 2020	56,460	9,034
Total gains/(losses) for the six months ended 30 June 2020		
– Realised gains/(losses)	1,556	5
– Unrealised gains/(losses)	(693)	(670)

	Financial assets at FVPL	Financial assets at FVOCI
Balance at 1 January 2019	21,050	5,698
Total gains or losses		
– Profit	1,120	64
– Other comprehensive income	–	(429)
Additions	53,632	3,235
Disposals and settlement	(9,891)	(941)
Transfer to other levels	(2,215)	(107)
Balance at 31 December 2019	63,696	7,520
Total gains/(losses) for the year ended 31 December 2019		
– Realised gains/(losses)	974	68
– Unrealised gains/(losses)	104	(435)

These financial instruments with fair values determined based on unobservable inputs are primarily convertible bonds, unlisted equities, unlisted debts, unlisted funds, part of the trust and asset management plan, equity derivatives and part of loans and advances to customers. The fair value of these financial instruments is determined primarily using discounted cash flow method and market comparison method. These valuation methods involve inputs from various unobservable assumptions such as cash flow, risk-adjusted discount rate, price to book value ratio, price to earning ratio and marketability discounts.

3.5 Offsetting financial assets and financial liabilities

Certain financial assets and financial liabilities of the Group are subject to enforceable master netting arrangements or similar agreements. The agreement between the Group and the counterparty generally allows for net settlement of the relevant financial assets and financial liabilities when both elect to settle on a net basis. In the absence of such a mutual consent, financial assets and financial liabilities will be settled on a gross basis. However, each party to the master netting arrangements or similar agreements will have the option to settle all such amounts on a net basis in the event of default of the other party. These financial assets and financial liabilities of the Group are not offset in accordance with IFRS.

As at 30 June 2020, the amount of the financial assets and financial liabilities subject to enforceable master netting arrangements or similar agreements is not material to the Group.

(All amounts expressed in millions of RMB unless otherwise stated)

4 NET INTEREST INCOME

	Six months ended 30 June	
	2020	2019
Interest income		
Loans and advances to customers	**124,636**	119,865
Financial investments	**46,272**	43,620
Due from and placements with banks and other financial institutions	**9,822**	12,419
Balances with central banks	**5,499**	5,958
	186,229	181,862
Interest expense		
Due to customers	**(71,996)**	(70,047)
Due to and placements from banks and other financial institutions	**(26,058)**	(28,772)
Certificates of deposit issued	**(7,425)**	(7,198)
Debt securities issued	**(6,901)**	(5,783)
	(112,380)	(111,800)
Net interest income	**73,849**	70,062
Including:		
Interest income on impaired financial assets	**767**	728

5 FEE AND COMMISSION INCOME

	Six months ended 30 June	
	2020	2019
Bank cards	**10,303**	10,213
Management services	**8,949**	7,372
Investment banking	**2,030**	2,632
Agency services	**2,594**	2,274
Guarantee and commitment	**1,381**	1,437
Settlement services	**825**	1,024
Others	**133**	118
	26,215	25,070

	Six months ended 30 June	
	2020	2019
Fee income, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are not held for trading or designated at FVPL	**1,005**	665
Fee income on trust and other fiduciary activities where the Group holds or invests on behalf of its customers	**1,597**	1,778

For the six months ended 30 June 2020
(All amounts expressed in millions of RMB unless otherwise stated)

6 FEE AND COMMISSION EXPENSE

	Six months ended 30 June	
	2020	2019
Bank card business	**1,177**	1,341
Settlement services	**550**	437
Others	**211**	170
	1,938	1,948

	Six months ended 30 June	
	2020	2019
Fee expense, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are not held for trading or designated at FVPL	**–**	2

7 NET GAINS ARISING FROM TRADING ACTIVITIES

	Six months ended 30 June	
	2020	2019
Financial instruments at FVPL	**7,283**	7,317
Foreign exchange	**1,555**	877
Interest rate instruments and others	**(1,485)**	95
	7,353	8,289

Net gains or losses on foreign exchange include trading gains or losses and fair value changes of spot and forward contracts, currency swaps, cross currency interest rate swaps, currency options and the translation of foreign currency monetary assets and liabilities into RMB.

Net gains or losses on interest rate instruments and others include trading gains or losses and fair value changes of interest rate swaps, interest rate options, commodity and other derivatives.

Net gains arising from trading activities for the six months ended 30 June 2020 included a loss of RMB296 million (for the six months ended 30 June 2019: a loss of RMB144 million) in relation to changes in the fair value of financial liabilities designated at fair value through profit or loss.

8 OTHER OPERATING INCOME

	Six months ended 30 June	
	2020	2019
Leasing income	**6,687**	5,918
Income from sales of precious metal merchandise	**825**	807
Revaluation of investment properties	**(15)**	40
Net gain on the disposal of fixed and foreclosed assets	**211**	132
Other miscellaneous income	**1,246**	1,013
	8,954	7,910

Other miscellaneous income mainly includes income arising from miscellaneous banking services provided to the Group's customers.

(All amounts expressed in millions of RMB unless otherwise stated)

9 CREDIT IMPAIRMENT LOSSES

	Six months ended 30 June	
	2020	2019
Due from and placements with banks and other financial institutions	136	(122)
Loans and advances to customers at amortised cost	30,568	22,673
Loans and advances to customers at FVOCI	566	(588)
Off-balance sheet businesses	2,024	(997)
Financial investments at amortised cost	(490)	(38)
Debt investments at FVOCI	320	(104)
Other receivables and prepayments	995	678
Accrued interest of loans and advances to customers at amortised cost	(239)	(30)
Others	(547)	72
	33,333	21,544

10 OTHER ASSETS IMPAIRMENT LOSSES

	Six months ended 30 June	
	2020	2019
Impairment losses on operating lease assets	163	–
Impairment losses on foreclosed assets	(4)	6
	159	6

11 OTHER OPERATING EXPENSES

	Six months ended 30 June	
	2020	2019
Staff costs and benefits (Note 12)	12,676	13,570
General operating and administrative expenses	18,276	15,101
Depreciation and amortisation	3,908	4,034
Costs of operating lease business	4,676	4,290
Tax and surcharges	1,349	1,277
Provision for outstanding litigations	(63)	180
Others	1,665	1,475
	42,487	39,927

12 STAFF COSTS AND BENEFITS

	Six months ended 30 June	
	2020	2019
Salaries, bonuses, allowances and subsidies	9,124	9,177
Post-employment benefit (a)	1,069	1,660
Other social security and benefit costs	2,483	2,733
	12,676	13,570

The comparative information of 2019 was restated since the presentation of “Other operating expenses” has been changed.

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(All amounts expressed in millions of RMB unless otherwise stated)

12 STAFF COSTS AND BENEFITS *(Continued)*

(a) Post-employment benefit

Defined contribution plans

The Group participates in various defined contribution retirement benefit plans organised by municipal and provincial governments in Mainland China under which it is required to make monthly contributions to these plans at rates ranging from 10% to 27% of the employees' basic salary for the year. The Group's contributions to these pension plans are charged to profit or loss and other comprehensive income in the year to which they relate.

Employees who retire after 1 January 2009 can voluntarily participate in an Annuity Plan. The Bank contributes to the Annuity Plan based on certain percentage of the employees' gross salary which is recognised in profit or loss as incurred.

The amount recognised in profit or loss is as follows:

	Six months ended 30 June	
	2020	2019
Expenses incurred for retirement benefit plans and unemployment insurance	**601**	1,221
Expenses incurred for annuity plan	**459**	423
Total	**1,060**	1,644

The amount payable at the end of the period or year is as follows:

	As at 30 June	As at 31 December
	2020	2019
Expenses incurred for retirement benefit plans and unemployment insurance	**47**	65
Expenses incurred for annuity plan	**1,017**	966
Total	**1,064**	1,031

Defined benefit plans

The Group pays supplementary retirement benefits to employees in Mainland China, who retired before 31 December 2008. The Group's obligations in respect of supplementary retirement benefits are calculated by estimating the amount of future benefits that the Group is committed to pay to the employees after their retirement using actuarial techniques. Such benefits, which are estimated by using key parameters such as inflation rate and mortality ratio, are discounted to their present values. The discount rate is the yield on government bonds at the end of reporting date, the maturity dates of which approximate to the terms of the Group's obligations. Actuarial gains or losses and changes in actuarial assumptions are recognised in other comprehensive income, and amendments to pension plan are recognised in profit or loss in the period of a plan amendment. The amounts recognised in the statement of financial position represent the present value of unfunded obligations.

The Group's retirement benefit obligations in locations other than Mainland China are immaterial and are made in accordance with the relevant local policies and regulations.

	As at 30 June	As at 31 December
	2020	2019
Statement of financial position		
– Obligations for pension benefits	**417**	399

(All amounts expressed in millions of RMB unless otherwise stated)

12 STAFF COSTS AND BENEFITS *(Continued)*

(a) Post-employment benefit *(Continued)*

Defined benefit plans *(Continued)*
Amounts recognised in comprehensive income in respect of the supplementary retirement benefits are as follows:

	Six months ended 30 June	
	2020	2019
Components of defined benefit costs recognised in profit or loss	**9**	16
Components of defined benefit costs recognised in other comprehensive income	**34**	(3)
Total	**43**	13

Past service cost and interest expense are recognised in other operating expense in the income statement. The average duration of the supplementary retirement benefits plan at 30 June 2020 is 9.81 years (31 December 2019: 10.21 years).

The Group expects to make a contribution of RMB40 million (2019: RMB40 million) to the defined benefit plan during the next financial year.

The supplementary retirement benefits plan exposes the Group to actuarial risks such as interest risk, longevity risk and inflation risk. A decrease in the government bond yield will increase the present value of unfunded obligations. The present value of unfunded obligations is calculated by reference to the best estimate of the mortality of plan participants. An increase in the life expectancy of the plan participants will increase the plan's liability. The present value of unfunded obligations is also measured by future payment standards, which are determined by inflation rate. Hence, an increase in inflation rate will increase the present value of the unfunded obligations.

The principal actuarial assumptions regarding interest risk and inflation risk used by the Group are discount rate and inflation rate, which were 2.92% (31 December 2019: 3.22%) and 3.73% (31 December 2019: 2.68%) respectively as at 30 June 2020. In the meantime, assumptions regarding future mortality rate are set based on published statistics by China Insurance Regulatory Commission. As at 30 June 2020, the average lifespan of the pensioner after retirement at age 60 for male is 19.70 years (31 December 2019: 19.70 years) while a pensioner after retirement at age 55 for female is 28.70 years (31 December 2019: 28.70 years).

13 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

	Six months ended 30 June	
	2020	2019
Remuneration	**7**	6

No director or supervisor waived or agreed to waive any emoluments during the above periods.

For the six months ended 30 June 2020, RMB0.40 million was accrued for independent non-executive directors' emolument (six months ended 30 June 2019, RMB0.51 million).

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(All amounts expressed in millions of RMB unless otherwise stated)

14 INCOME TAX

	Six months ended 30 June	
	2020	2019
Current income tax		
– Mainland China enterprise income tax	**3,968**	7,128
– Hong Kong profits tax	**475**	569
– Income tax arising in Macao, Taiwan and other countries or regions	**193**	251
	4,636	7,948
Deferred income tax (Note 24)	**(1,675)**	(2,137)
	2,961	5,811

The provision for enterprise income tax in Mainland China is calculated based on the statutory rate of 25% (2019: 25%) of the assessable income of the Bank and each subsidiary established in Mainland China. Taxation arising in other jurisdictions (including Hong Kong) is calculated at the rates prevailing in the relevant jurisdictions. The shortfall arising from the differential in tax rates of overseas branches as compared with the Mainland China tax rate shall be paid by Head Office.

The actual taxation on the Group differs from the theoretical amount calculated using the Group's profit before tax at the tax rate of 25% (2019: 25%). The major reconciliation items are as follows:

	Six months ended 30 June	
	2020	2019
Profit before tax	**39,958**	48,959
Tax calculated at a tax rate of 25%	**9,990**	12,240
Effects of different tax rates in Hong Kong, Macao, Taiwan and other countries or regions	**(94)**	86
Effects of expense not deductible for tax purposes	**1,944**	649
Effects of income not taxable for tax purposes (1)	**(8,449)**	(7,595)
Adjustments for income tax of prior periods	**(430)**	431
Income tax expense	**2,961**	5,811

(1) Non-taxable income primarily includes interest income from PRC treasury bonds and municipal government bonds and fund investment income gained in Mainland China.

15 BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net profit attributable to shareholders of the Bank by the weighted average number of ordinary shares in issue during the period.

	Six months ended 30 June	
	2020	2019
Net profit attributable to shareholders of the Bank	**36,505**	42,749
Less: Net profit attributable to preference shareholders of the Bank	**(2,714)**	(2,671)
Net profit attributable to ordinary shareholders of the Bank	**33,791**	40,078
Weighted average number of ordinary shares in issue (expressed in millions) at the end of the period	**74,263**	74,263
Basic and diluted earnings per share (expressed in RMB per share)	**0.46**	0.54

(All amounts expressed in millions of RMB unless otherwise stated)

15 BASIC AND DILUTED EARNINGS PER SHARE *(Continued)*

The Bank issued non-cumulative preference shares on 29 July 2015 and 2 September 2016 under the terms and conditions as detailed in Note 33.1 Preference Shares. For the purpose of calculating basic earnings per share, a cash dividend of RMB2,714 million on non-cumulative preference shares declared for the period was deducted from the amounts attributable to ordinary shareholders of the Bank. The conversion feature of preference shares is considered to fall within contingently issuable ordinary shares. The triggering events of conversion did not occur for the six months ended 30 June 2020, therefore the conversion feature of preference shares has no effect on the basic and diluted earnings per share calculation.

The Bank issued non-cumulative perpetual bonds on 18 September 2019 under the terms and conditions as detailed in Note 33.2 Perpetual Bonds. For the purpose of calculating basic earnings per share, distributions on non-cumulative perpetual bonds declared in respect of the period should be deducted from the amounts attributable to shareholders of the Bank. The Bank has not declared any distributions on perpetual bonds for the six months ended 30 June 2020.

16 CASH AND BALANCES WITH CENTRAL BANKS

	As at 30 June 2020	As at 31 December 2019
Cash	**14,527**	14,481
Mandatory reserve deposits	**623,984**	653,190
Excess reserve deposits	**152,384**	76,145
Fiscal deposits and others	**9,991**	16,078
Accrued interest	**260**	291
	801,146	760,185

The Group places mandatory reserves with PBOC and several other central banks of overseas countries and regions. Such mandatory reserves are not available for use by the Group in its day-to-day operations.

The Bank's domestic mandatory deposit reserve rates as at the balance sheet date are as follows:

	As at 30 June 2020 %	As at 31 December 2019 %
Domestic mandatory reserve rate for deposits denominated in RMB	**11.00**	12.50
Domestic mandatory reserve rate for deposits denominated in foreign currencies	**5.00**	5.00

Reserve rate for deposits denominated in RMB of the Group's subsidiaries in Mainland China is subject to relevant regulations of PBOC.

Mandatory reserve rate for deposits with central banks of overseas countries and regions is subject to regulations of local regulatory bodies.

Excess reserve deposits with central banks are mainly used for capital settlement, financial institution transfer, etc.

For the six months ended 30 June 2020
(All amounts expressed in millions of RMB unless otherwise stated)

17 DUE FROM AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 30 June 2020	As at 31 December 2019
Due from banks and other financial institutions		
– Banks and other financial institutions operating in Mainland China	**86,982**	96,489
– Banks and other financial institutions operating outside Mainland China	**43,909**	39,783
Accrued interest	**682**	559
Less: Allowance for impairment losses	**(178)**	(176)
Financial assets purchased under resale agreements		
Securities		
– Governments	**11,551**	4,787
– Policy banks	**22,750**	950
– Financial institutions	**29,396**	9,030
– Corporates	**–**	450
Bills	**5,450**	329
Accrued interest	**16**	20
Less: Allowance for impairment losses	**(62)**	(11)
Placements with and loans to banks		
– Banks operating in Mainland China	**124,703**	100,074
– Banks operating outside Mainland China	**104,372**	55,132
Placements with and loans to other financial institutions		
– Placements with and loans to other financial institutions in Mainland China	**172,126**	262,885
– Placements with and loans to other financial institutions outside Mainland China	**87,660**	74,080
Accrued interest	**4,712**	4,979
Less: Allowance for impairment losses	**(968)**	(872)
	693,101	648,488

As at 30 June 2020, placements and bonds purchased under resale agreements with certain wealth management products that were sponsored and not consolidated by the Group had been matured and the amounts had been fully repaid. (31 December 2019: RMB4,500 million). These transactions were carried out at market prices and the Group were not contractually obliged to make such arrangements. The maximum exposure to loss of those transactions approximated the carrying amount of the placements and bonds purchased under resale agreements. The average exposure of the above transactions for the period ended 30 June 2020 was RMB205 million and the weighted average outstanding period was 1.05 days (The average exposure during 2019 was RMB47,930 million and the weighted average outstanding period was 2.42 days).

(All amounts expressed in millions of RMB unless otherwise stated)

18 FINANCIAL INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 30 June 2020	As at 31 December 2019
Government bonds		
– Listed in Hong Kong	**2,723**	2,829
– Listed outside Hong Kong (a)	**2,739**	3,176
– Unlisted	**269**	1,597
Other bonds		
– Listed in Hong Kong	**29,152**	21,244
– Listed outside Hong Kong (a)	**117,744**	100,680
– Unlisted – corporate entities	**3,901**	3,869
– Unlisted – banks	**3,043**	1,555
Equity securities and others		
– Listed in Hong Kong	**857**	820
– Listed outside Hong Kong	**4,429**	1,756
– Unlisted	**45,533**	47,141
Funds, trusts and debt investments		
– Listed outside Hong Kong	**184**	92
– Unlisted	**274,632**	170,343
Precious metal contracts	**29,193**	39,532
Placements with banks and other financial institutions	**5,145**	11,864
Total	**519,544**	406,498

(a) Bonds traded in the China domestic inter-bank bond market are included in "Listed outside Hong Kong".

Debt securities at fair value through profit or loss are analysed by issuer as follows:

	As at 30 June 2020	As at 31 December 2019
– Banks and other financial institutions	**93,608**	88,783
– Corporate entities	**58,691**	36,565
– Governments and central banks	**5,731**	7,602
– Public sector entities	**1,541**	2,000
	159,571	134,950

The financial investments at fair value through profit or loss include financial assets held for trading and financial assets that cannot pass the 'SPPI test'.

(All amounts expressed in millions of RMB unless otherwise stated)

19 DERIVATIVE FINANCIAL INSTRUMENTS

The following derivative instruments are utilised by the Group for trading or hedging purposes:

Currency and commodity forwards are contracts between two parties to buy or sell certain currencies or commodities at a specified future date at a pre-determined price. The party agreeing to buy the underlying currency or commodities in the future assumes a long position, and the party agreeing to sell the currency or commodities in the future assumes a short position. The price agreed upon is called the delivery price, which is equal to the forward price at the time the contract is entered into.

Currency, commodity and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies, commodities or interest rates (for example, fixed rate for floating rate) or a combination of these (i.e. cross-currency interest rate swaps). The Group's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Group assesses counterparties using the same techniques as for its lending activities.

Currency, commodity and interest rate options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) on or before a set date or during a set period, a specific amount of a currency or commodity at a pre-determined price or to receive an interest payment based on a variable interest rate and pay at a fixed interest rate or vice versa. The seller receives a premium from the purchaser in consideration for assuming foreign exchange, interest rate risk or commodity price fluctuations. Options may be either exchange-traded or negotiated between the Group and a customer (over the counter market).

The notional amounts of certain types of financial instruments provide a reference of the amounts 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 price risks. The derivative instruments may become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates, foreign exchange rates or commodity price relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time. The fair values of derivative instruments held are set out in the following tables.

	Contractual/ Notional	**Fair values**	
As at 30 June 2020	**Amount**	**Assets**	**Liabilities**
Foreign exchange and commodity contracts	**2,740,284**	**10,616**	**(15,139)**
Interest rate contracts and others	**4,083,768**	**17,514**	**(26,164)**
Total amount of derivative instruments recognised	**6,824,052**	**28,130**	**(41,303)**

	Contractual/ Notional	Fair values	
As at 30 December 2019	Amount	Assets	Liabilities
Foreign exchange and commodity contracts	2,173,598	15,784	(20,423)
Interest rate contracts and others	3,826,987	5,153	(6,001)
Total amount of derivative instruments recognised	6,000,585	20,937	(26,424)

The tables above provide a breakdown of the contractual or notional amounts and the fair values of the Group's derivative financial instruments outstanding at year end. These instruments, comprising foreign exchange, interest rate and commodity derivatives allow the Group and its customers to transfer, modify or reduce their foreign exchange, interest rate and commodity price fluctuation risks.

(All amounts expressed in millions of RMB unless otherwise stated)

19 DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

The Group undertakes its transactions in foreign exchange, interest rates and commodity contracts with other financial institutions and customers. Management has established limits for these contracts based on counterpart types, industry sectors and countries. Related risks are regularly monitored and controlled by management.

Notional amounts of derivative financial instruments by original currency:

	As at 30 June 2020	As at 31 December 2019
RMB	**4,898,670**	4,442,337
USD	**1,548,762**	1,209,161
HKD	**251,995**	204,007
Others	**124,625**	145,080
Total	**6,824,052**	6,000,585

Hedge accounting

The above derivative financial instruments include those designated as hedging instruments by the Group as follows:

As at 30 June 2020	**Contractual/Notional Amount**	**Fair values Assets**	**Fair values Liabilities**
Derivative financial instruments designated as hedging instruments in fair value hedges	**154,878**	**37**	**(7,355)**
Derivative financial instruments designated as hedging instruments in cash flow hedges	**50,590**	**227**	**(1,086)**
Total	**205,468**	**264**	**(8,441)**

As at 30 December 2019	Contractual/Notional Amount	Fair values Assets	Fair values Liabilities
Derivative financial instruments designated as hedging instruments in fair value hedges	121,791	295	(1,794)
Derivative financial instruments designated as hedging instruments in cash flow hedges	29,379	130	(168)
Total	151,170	425	(1,962)

(a) Fair value hedge

The Group uses interest rate swaps to hedge against changes in fair value arising from changes in interest rates. Some purchased interest rate swap contracts are designated as hedging instruments, whose terms are identical with those of the corresponding hedged items regarding interest rate, maturity and currency. The Group uses regression analysis to evaluate the effectiveness of hedging. With the supporting of testing results, the Group's management considers the hedging relationship to be highly effective. The hedged items include due from and placements with banks and other financial institutions, debt investments at FVOCI, due to and placements from banks and other financial institutions, loans and advances to customers and certificates of deposits issued.

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(All amounts expressed in millions of RMB unless otherwise stated)

19 DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

Hedge accounting *(Continued)*

(a) Fair value hedge *(Continued)*

The following table shows the profit or loss effects of the fair value hedges:

	Six months ended 30 June	
	2020	2019
Net (losses)/gains from fair value hedges:		
Hedging instruments	**(5,913)**	(2,580)
Hedged items attributable to the hedged risk	**5,799**	2,598
Total	**(114)**	18

(b) Cash flow hedge

The Group uses foreign exchange contracts to hedge against exposures to cash flow variability primarily resulting from foreign exchange risks, and uses interest rate swaps to hedge against exposures to cash flow variability primarily resulting from interest rate risks. The hedged items include debt investments at FVOCI, due from and placements with banks and other financial institutions, loans and advances to customers, due to and placements from banks and other financial institutions and certificates of deposits issued. The Group mainly uses regression analysis to evaluate the effectiveness of hedging. With the supporting of testing results, the Group's management considers the hedging relationship to be highly effective.

For the six months ended 30 June 2020, the Group's loss from effective portion of cash flow hedge of RMB829 million (for the six months ended 30 June 2019: a net profit of RMB156 million) was recognized and the gains or losses arising from the ineffective portion of cash flow hedge was immaterial. There were no transactions for which cash flow hedge accounting had to be ceased as a result of the highly probable cash flows no longer being expected to occur.

20 LOANS AND ADVANCES TO CUSTOMERS

20.1 Loans and advances to customers

	As at 30 June 2020	As at 31 December 2019
Loans and advances to customers		
– Carried at amortised cost	**5,458,475**	5,068,861
– Carried at FVOCI	**271,038**	235,414
Less: Allowance for impairment losses	**(141,317)**	(132,719)
Accrued interest	**16,475**	14,648
Less: Allowance for impairment losses of accrued interest	**(2,315)**	(2,551)
	5,602,356	5,183,653

(All amounts expressed in millions of RMB unless otherwise stated)

20 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

20.2 Movements of ECL allowance

Movements of ECL allowance – Corporate loan at amortised cost:

	Stage 1 12-month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
As at 1 January 2020	**23,125**	**39,960**	**42,085**	**105,170**
Addition/(Reversal)	**1,804**	**(1,740)**	**(476)**	**(412)**
Transfer in	**–**	**417**	**–**	**417**
Written-offs and disposals	**–**	**(2,702)**	**(11,118)**	**(13,820)**
Transfers:	**(27)**	**(10,436)**	**10,463**	**–**
Transfer between Stage 1 and Stage 2, net	**23**	**(23)**	**–**	**–**
Transfer between Stage 1 and Stage 3, net	**(50)**	**–**	**50**	**–**
Transfer between Stage 2 and Stage 3, net	**–**	**(10,413)**	**10,413**	**–**
Remeasurement	**7,917**	**4,654**	**5,580**	**18,151**
Recoveries of loans written-off in previous years	**–**	**–**	**1,476**	**1,476**
Unwind of discount	**–**	**–**	**(651)**	**(651)**
Exchange differences	**22**	**9**	**(2)**	**29**
As at 30 June 2020	**32,841**	**30,162**	**47,357**	**110,360**

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2019	23,323	42,503	36,577	102,403
Addition/(Reversal)	3,443	(3,596)	(4,142)	(4,295)
Transfer in/(out)	(51)	189	–	138
Written-offs and disposals	–	(217)	(27,330)	(27,547)
Transfers:	844	(13,068)	12,224	–
Transfer between Stage 1 and Stage 2, net	1,148	(1,148)	–	–
Transfer between Stage 1 and Stage 3, net	(304)	–	304	–
Transfer between Stage 2 and Stage 3, net	–	(11,920)	11,920	–
Remeasurement	(4,459)	14,145	24,560	34,246
Recoveries of loans written-off in previous years	–	–	1,464	1,464
Unwind of discount	–	–	(1,292)	(1,292)
Exchange differences	25	4	24	53
As at 31 December 2019	23,125	39,960	42,085	105,170

(All amounts expressed in millions of RMB unless otherwise stated)

20 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

20.2 Movements of ECL allowance *(Continued)*

Movements of ECL allowance – Individual Loan at amortised cost:

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2020	**8,394**	**3,193**	**15,962**	**27,549**
Addition/(Reversal)	**599**	**(63)**	**(543)**	**(7)**
Written-offs and disposals	**–**	**–**	**(9,967)**	**(9,967)**
Transfers:	**245**	**(1,146)**	**901**	**–**
Transfer between Stage 1 and Stage 2, net	**312**	**(312)**	**–**	**–**
Transfer between Stage 1 and Stage 3, net	**(67)**	**–**	**67**	**–**
Transfer between Stage 2 and Stage 3, net	**–**	**(834)**	**834**	**–**
Remeasurement	**652**	**1,731**	**10,453**	**12,836**
Recoveries of loans written-off in previous years	**–**	**–**	**660**	**660**
Unwind of discount	**–**	**–**	**(116)**	**(116)**
Exchange differences	**2**	**51**	**(51)**	**2**
As at 30 June 2020	**9,892**	**3,766**	**17,299**	**30,957**

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2019	7,710	2,302	11,446	21,458
Addition/(Reversal)	909	(225)	(1,219)	(535)
Written-offs and disposals	–	–	(14,436)	(14,436)
Transfers:	380	(686)	306	–
Transfer between Stage 1 and Stage 2, net	295	(295)	–	–
Transfer between Stage 1 and Stage 3, net	85	–	(85)	–
Transfer between Stage 2 and Stage 3, net	–	(391)	391	–
Remeasurement	(605)	1,800	18,816	20,011
Recoveries of loans written-off in previous years	–	–	1,224	1,224
Unwind of discount	–	–	(175)	(175)
Exchange differences	–	2	–	2
As at 31 December 2019	8,394	3,193	15,962	27,549

(All amounts expressed in millions of RMB unless otherwise stated)

20 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

20.2 Movements of ECL allowance *(Continued)*

Movements of ECL allowance – Loans and advances to customers at fair value through other comprehensive income:

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2020	**839**	**205**	**289**	**1,333**
Addition	**128**	**68**	**30**	**266**
Transfers:	**(2)**	**(96)**	**98**	**–**
Transfer between Stage 1 and Stage 2, net	**(2)**	**2**	**–**	**–**
Transfer between Stage 1 and Stage 3, net	**–**	**(98)**	**98**	**–**
Remeasurement	**301**	**30**	**9**	**340**
Exchange differences	**22**	**(3)**	**(19)**	**–**
As at 30 June 2020	**1,288**	**204**	**407**	**1,899**

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2019	1,163	283	233	1,679
Addition/(Reversal)	(376)	(78)	49	(405)
Transfers:	(3)	–	3	–
Transfer between Stage 1 and Stage 3, net	(3)	–	3	–
Remeasurement	55	–	4	59
As at 31 December 2019	839	205	289	1,333

20.3 Loans and advances to customers analysed by security type

	As at 30 June 2020	As at 31 December 2019
Unsecured loans	**1,854,610**	1,844,304
Guaranteed loans	**1,107,450**	943,076
Collateralised and other secured loans	**2,767,453**	2,516,895
Including: Loans secured by collateral	**1,966,636**	1,926,508
Pledged loans	**800,817**	590,387
Total	**5,729,513**	5,304,275

For the six months ended 30 June 2020
(All amounts expressed in millions of RMB unless otherwise stated)

20 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

20.4 Overdue loans analysed by security type

	As at 30 June 2020				
	Overdue within three months	**Overdue between three months and one year**	**Overdue between one year and three years**	**Overdue over three years**	**Total**
Unsecured loans	**11,457**	**16,171**	**1,559**	**551**	**29,738**
Guaranteed loans	**4,650**	**12,502**	**13,606**	**4,020**	**34,778**
Collateralised and other secured loans	**6,531**	**14,543**	**10,135**	**4,155**	**35,364**
Including: Loans secured by collateral	**5,985**	**13,070**	**9,392**	**3,969**	**32,416**
Pledged loans	**546**	**1,473**	**743**	**186**	**2,948**
Total	**22,638**	**43,216**	**25,300**	**8,726**	**99,880**

	As at 31 December 2019				
	Overdue within three months	Overdue between three months and one year	Overdue between one year and three years	Overdue over three years	Total
Unsecured loans	10,622	12,014	1,009	299	23,944
Guaranteed loans	4,983	7,781	11,294	3,893	27,951
Collateralised and other secured loans	13,318	8,823	11,358	5,126	38,625
Including: Loans secured by collateral	11,805	7,934	9,505	4,695	33,939
Pledged loans	1,513	889	1,853	431	4,686
Total	28,923	28,618	23,661	9,318	90,520

(All amounts expressed in millions of RMB unless otherwise stated)

21 FINANCIAL INVESTMENTS

	As at 30 June 2020	As at 31 December 2019
Financial investments at amortised cost		
– Listed in Hong Kong	**10,536**	7,427
– Listed outside Hong Kong	**1,765,106**	1,747,791
– Unlisted	**140,758**	149,170
Accrued interest	**27,138**	28,564
Less: Allowance for impairment losses	**(2,773)**	(3,263)
Total	**1,940,765**	1,929,689
Financial investments at FVOCI		
Debt investments at FVOCI		
– Listed in Hong Kong	**181,117**	155,781
– Listed outside Hong Kong	**476,047**	382,695
– Unlisted	**111,627**	115,776
Accrued interest	**7,555**	6,459
Subtotal	**776,346**	660,711
Equity investments at FVOCI		
– Listed in Hong Kong	**812**	677
– Listed outside Hong Kong	**1,740**	1,639
– Unlisted	**7,939**	6,629
Subtotal	**10,491**	8,945
Total	**786,837**	669,656

The Group designates part of non-trading equity investments as financial investments measured at FVOCI.

For the six months ended 30 June 2020, the Group's cash dividends received from equity investments at FVOCI was RMB19 million (for the six months ended 30 June 2019: RMB11 million).

The movements in allowance for impairment losses of financial investments at amortised cost are summarised as follows:

	Stage 1 12-month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
As at 1 January 2020	**2,455**	**178**	**630**	**3,263**
Addition/(Reversal)	**(663)**	**–**	**–**	**(663)**
Written-offs	**–**	**–**	**–**	**–**
Recovery after written-offs	**–**	**–**	**–**	**–**
Transfers:	**–**	**–**	**–**	**–**
Transfer between Stage 1 and Stage 2, net	**–**	**–**	**–**	**–**
Transfer between Stage 1 and Stage 3, net	**–**	**–**	**–**	**–**
Transfer between Stage 2 and Stage 3, net	**–**	**–**	**–**	**–**
Remeasurement	**75**	**87**	**11**	**173**
Exchange differences	**–**	**–**	**–**	**–**
As at 30 June 2020	**1,867**	**265**	**641**	**2,773**

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(All amounts expressed in millions of RMB unless otherwise stated)

21 FINANCIAL INVESTMENTS *(Continued)*

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2019	2,884	–	485	3,369
Addition/(Reversal)	(148)	–	(13)	(161)
Written-offs	–	–	–	–
Recovery after written-offs	–	–	13	13
Transfers:	(56)	52	4	–
Transfer between Stage 1 and Stage 2, net	(52)	52	–	–
Transfer between Stage 1 and Stage 3, net	(4)	–	4	–
Transfer between Stage 2 and Stage 3, net	–	–	–	–
Remeasurement	(226)	126	141	41
Exchange differences	1	–	–	1
As at 31 December 2019	2,455	178	630	3,263

The movements in allowance for impairment losses of Debt investments at FVOCI are summarised as follows:

	Stage 1 12-month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
As at 1 January 2020	**660**	**–**	**393**	**1,053**
Addition/(Reversal)	**159**	**–**	**–**	**159**
Written-offs	**–**	**–**	**–**	**–**
Recovery after written-offs	**–**	**–**	**–**	**–**
Transfers:	**(24)**	**–**	**24**	**–**
Transfer between Stage 1 and Stage 2, net	**–**	**–**	**–**	**–**
Transfer between Stage 1 and Stage 3, net	**(24)**	**–**	**24**	**–**
Transfer between Stage 2 and Stage 3, net	**–**	**–**	**–**	**–**
Remeasurement	**61**	**–**	**100**	**161**
Exchange differences	**(6)**	**–**	**7**	**1**
As at 30 June 2020	**850**	**–**	**524**	**1,374**

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2019	718	–	467	1,185
Addition/(Reversal)	114	–	(81)	33
Written-offs	–	–	–	–
Recovery after written-offs	–	–	–	–
Transfers:	–	–	–	–
Transfer between Stage 1 and Stage 2, net	–	–	–	–
Transfer between Stage 1 and Stage 3, net	–	–	–	–
Transfer between Stage 2 and Stage 3, net	–	–	–	–
Remeasurement	(193)	–	–	(193)
Exchange differences	21	–	7	28
As at 31 December 2019	660	–	393	1,053

(All amounts expressed in millions of RMB unless otherwise stated)

21 FINANCIAL INVESTMENTS *(Continued)*

Debt securities analysed by issuer are as follows:

	As at 30 June 2020	As at 31 December 2019
Debt investments at FVOCI		
– Governments and central banks	**322,242**	258,959
– Public sector entities	**2,692**	2,108
– Banks and other financial institutions	**379,916**	329,703
– Corporate entities	**71,496**	69,941
Total	**776,346**	660,711
Bond investments at amortised cost		
– Governments and central banks	**1,590,260**	1,521,473
– Public sector entities	**24,294**	25,689
– Banks and other financial institutions	**169,587**	215,817
– Corporate entities	**26,654**	27,038
Total	**1,810,795**	1,790,017

The certificates of deposits held included in financial investments are analysed as follows:

	As at 30 June 2020	As at 31 December 2019
Financial investments at FVOCI		
– Listed in Hong Kong	**43**	1,411
– Listed outside Hong Kong	**7,412**	3,606
– Unlisted	**42,125**	38,088
Total	**49,580**	43,105

The maturity profile of certificates of deposits in the inter-bank market held by the remaining period as at period end to the contractual maturity dates are summarised as follows:

	As at 30 June 2020	As at 31 December 2019
Within 3 months	**13,262**	3,129
3 months to 12 months	**20,372**	15,341
1 year to 5 years	**15,728**	22,368
Over 5 years	**218**	2,267
Total	**49,580**	43,105

22 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

	As at 30 June 2020	As at 31 December 2019
Investments in associates		
Investment cost	**3,506**	3,506
Share of net profit of associates for the period	**1,165**	1,080
Share of other equity changes of associates for the period	**121**	71
Dividend income	**(97)**	(93)
Subtotal	**4,695**	4,564
Investments in joint ventures	**50**	36
Total	**4,745**	4,600

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22 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES *(Continued)*

The Group's investments in associates mainly include the investments in Jiangsu Changshu Rural Commercial Bank Co., Ltd. and Bank of Tibet Co., Ltd.

Jiangsu Changshu Rural Commercial Bank Co., Ltd. was incorporated in Changshu City, Jiangsu Province on 3 December 2001. The registered capital of the entity is RMB2,741 million, and the principal activities of the entity are banking activities. The Group held 9.01% of equity interest in this associate as at 30 June 2020 (31 December 2019: 9.01%).

There are 15 directors at the Board of Directors of Jiangsu Changshu Rural Commercial Bank Co., Ltd., of which 3 directors were nominated by the Group. Accordingly, the Group is able to exert significant influence on such company, so such company is accounted for as an associate.

Bank of Tibet Co., Ltd. was incorporated in Tibet Autonomous Region, PRC on 30 December 2011. The registered capital of the entity is RMB3,320 million, and the principal activities of the entity are banking activities. The Group held 10.60% of equity interest in this associate as at 30 June 2020 (31 December 2019: 10.60%).

There are 12 directors at the Board of Directors of Bank of Tibet Co., Ltd., of which 3 directors were nominated by the Group. Accordingly, the Group is able to exert significant influence on such company, so such company is accounted for as an associate.

23 PROPERTY AND EQUIPMENT

	Land and buildings	Construction in progress	Equipment	Transportation equipment	Property improvement	Total
Cost						
As at 1 January 2020	61,764	2,625	25,350	134,440	9,378	233,557
Additions	89	323	333	13,318	7	14,070
Disposals	(113)	–	(699)	(4,470)	(38)	(5,320)
Construction in progress transfer in/(out)	180	(221)	–	–	41	–
Transfer in from investment properties	65	–	–	–	–	65
Transfer into investment properties	(4)	–	–	–	–	(4)
Other transfer out	–	(143)	–	–	–	(143)
As at 30 June 2020	61,981	2,584	24,984	143,288	9,388	242,225
Accumulated depreciation						
As at 1 January 2020	(18,678)	–	(20,243)	(17,277)	(5,824)	(62,022)
Charge for the period	(987)	–	(995)	(3,327)	(406)	(5,715)
Disposals	31	–	691	37	21	780
Transfer into investment properties	2	–	–	–	–	2
As at 30 June 2020	(19,632)	–	(20,547)	(20,567)	(6,209)	(66,955)
Allowance for impairment losses						
As at 1 January 2020	–	(16)	–	(340)	–	(356)
Provision for impairment	–	–	–	(163)	–	(163)
Exchange differences	–	–	–	(5)	–	(5)
As at 30 June 2020	–	(16)	–	(508)	–	(524)
Net book value						
As at 30 June 2020	42,349	2,568	4,437	122,213	3,179	174,746

As at 30 June 2020, the net book value of aircrafts and vessels leased out by the Group under operating lease arrangements was RMB121,935 million (31 December 2019: RMB116,540 million). Among them, the net book value of the aircrafts and vessels used as collateral for borrowings was RMB57,932 million (31 December 2019: RMB59,957 million).

(All amounts expressed in millions of RMB unless otherwise stated)

23 PROPERTY AND EQUIPMENT *(Continued)*

As at 30 June 2020, the property and equipment with re-registration procedure not completed amounted to RMB198 million (31 December 2019: RMB198 million). However, this registration process does not affect the rights of the Bank to these assets.

	Land and buildings	Construction in progress	Equipment	Transportation equipment	Property improvement	Total
Cost						
As at 1 January 2019	61,594	2,407	25,523	108,553	9,133	207,210
Additions	173	965	2,077	28,201	103	31,519
Disposals	(468)	–	(2,250)	(2,314)	(124)	(5,156)
Construction in progress transfer in/ (out)	326	(731)	–	–	405	–
Other transfers in/(out)	139	(16)	–	–	(139)	(16)
As at 31 December 2019	61,764	2,625	25,350	134,440	9,378	233,557
Accumulated depreciation						
As at 1 January 2019	(16,860)	–	(20,288)	(11,540)	(5,103)	(53,791)
Charge for the year	(1,975)	–	(2,065)	(5,908)	(822)	(10,770)
Disposals	157	–	2,110	171	101	2,539
As at 31 December 2019	(18,678)	–	(20,243)	(17,277)	(5,824)	(62,022)
Allowance for impairment losses						
As at 1 January 2019	–	(16)	–	(117)	–	(133)
Provision for impairment	–	–	–	(233)	–	(233)
Decrease	–	–	–	10	–	10
As at 31 December 2019	–	(16)	–	(340)	–	(356)
Net book value						
As at 31 December 2019	43,086	2,609	5,107	116,823	3,554	171,179

24 DEFERRED INCOME TAX

Deferred income taxes for transactions in PRC are calculated on all temporary differences using an effective tax rate of 25% for the six months ended 30 June 2020 (for the year ended 31 December 2019: 25%). Deferred income taxes for transactions in Hong Kong are calculated on all temporary differences using an effective tax rate of 16.5% (for the year ended 31 December 2019: 16.5%).

The movements in the deferred income tax account are as follows:

	Allowance for impairment losses	Provisions	Retirement supplementary pension payable	Changes in fair value of financial assets at FVOCI	Changes in fair value of derivative instruments	Changes in fair value of investment properties	Changes in fair value of financial investments and financial liabilities at FVPL	Others	Total
As at 1 January 2020	21,078	1,840	99	(530)	1,371	(680)	(1,574)	1,543	23,147
Recognised in profit or loss	684	383	5	-	1,753	1	(658)	(493)	1,675
Recognised in other comprehensive income	(172)	-	-	339	169	(3)	-	-	333
As at 30 June 2020	21,590	2,223	104	(191)	3,293	(682)	(2,232)	1,050	25,155

(All amounts expressed in millions of RMB unless otherwise stated)

24 DEFERRED INCOME TAX *(Continued)*

	Allowance for impairment losses	Provisions	Retirement supplementary pension payable	Changes in fair value of financial assets at FVOCI	Changes in fair value of derivative instruments	Changes in fair value of investment properties	Changes in fair value of financial investments and financial liabilities at FVPL	Others	Total
As at 1 January 2019	18,947	1,516	102	484	(412)	(584)	(538)	1,862	21,377
Recognised in profit or loss	2,742	324	(3)	–	1,778	(96)	(1,036)	(319)	3,390
Recognised in other comprehensive income	(611)	–	–	(1,014)	5	–	–	–	(1,620)
As at 31 December 2019	21,078	1,840	99	(530)	1,371	(680)	(1,574)	1,543	23,147

Deferred income tax assets and liabilities are attributable to the following items:

	As at 30 June 2020		As at 31 December 2019	
	Deductible/ (Taxable) temporary differences	**Deferred income tax assets/ (liabilities)**	Deductible/ (Taxable) temporary differences	Deferred income tax assets/ (liabilities)
Deferred income tax liabilities				
Changes in fair value of financial assets at FVOCI	**(4,228)**	**(1,057)**	(4,632)	(1,158)
Changes in fair value of financial assets and liabilities at FVPL	**(8,928)**	**(2,232)**	(8,272)	(2,068)
Changes in fair value of derivative instruments	**(28,130)**	**(7,032)**	(20,937)	(5,235)
Changes in fair value of investment properties	**(2,728)**	**(682)**	(2,720)	(680)
Others	**(2,532)**	**(633)**	(2,408)	(602)
	(46,546)	**(11,636)**	(38,969)	(9,743)
Deferred income tax assets				
Allowance for impairment of assets	**86,360**	**21,590**	84,312	21,078
Retirement supplementary pension payable	**417**	**104**	399	99
Provisions	**8,893**	**2,223**	7,361	1,840
Changes in fair value of financial assets and liabilities at FVPL	**–**	**–**	1,976	494
Changes in fair value of financial assets at FVOCI	**3,464**	**866**	2,512	628
Changes in fair value of derivative instruments	**41,303**	**10,325**	26,424	6,606
Others	**6,732**	**1,683**	8,580	2,145
	147,169	**36,791**	131,564	32,890
Net deferred income tax assets	**100,623**	**25,155**	92,595	23,147

The above net deferred income tax assets are disclosed separately on the statements of financial position based on different taxation authorities and entities:

	As at 30 June 2020	As at 31 December 2019
Deferred income tax assets	**26,045**	24,065
Deferred income tax liabilities	**(890)**	(918)

(All amounts expressed in millions of RMB unless otherwise stated)

25 OTHER ASSETS

	As at 30 June 2020	As at 31 December 2019
Interest receivable[1]	4,069	3,827
Settlement accounts	11,010	7,567
Other receivables and prepayments	45,073	41,344
Less: Allowance for impairment losses (c)	(3,031)	(2,717)
Investment properties (b)	7,851	7,894
Right-of-use assets (e)	6,592	6,521
Land use rights and others	2,050	1,936
Intangible assets (a)	1,383	1,368
Long-term deferred expenses	653	714
Precious metal	606	758
Foreclosed assets	748	759
Goodwill (d)	407	430
Refundable deposits	499	493
Unsettled assets	33	33
Others	14,574	15,723
	92,517	86,650

Note 1: The interest receivable account only reflects the interest for relevant financial instruments which is due but not received on balance sheet date.

(a) Intangible assets

	Software
Cost	
As at 1 January 2020	3,386
Additions	182
Transfers in	–
Disposals	(13)
As at 30 June 2020	3,555
Accumulated amortisation	
As at 1 January 2020	(2,018)
Amortisation expense	(159)
Transfers in	–
Disposals	5
As at 30 June 2020	(2,172)
Net book value	1,383

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25 OTHER ASSETS *(Continued)*

(a) Intangible assets *(Continued)*

	Software
Cost	
As at 1 January 2019	3,028
Additions	365
Transfers in	–
Disposals	(7)
As at 31 December 2019	3,386
Accumulated amortisation	
As at 1 January 2019	(1,719)
Amortisation expense	(306)
Transfers in	–
Disposals	7
As at 31 December 2019	(2,018)
Net book value	1,368

(b) Investment properties

	As at 1 January 2020	**Additions/ (Decreases) of the period**	**Gains on property revaluation**	**Exchange differences**	**As at 30 June 2020**
Investment properties	**7,894**	**(51)**	**(15)**	**23**	**7,851**

	As at 1 January 2019	Additions/ (Decreases) of the year	Gains on property revaluation	Exchange differences	As at 31 December 2019
Investment properties	7,899	–	31	(36)	7,894

The Group's investment properties are located in active real estate markets. The external appraisers make reasonable estimation of fair value using market prices of the similar properties.

As at 30 June 2020, fair value hierarchies of the investment properties of the Group are as follows:

	Level 1	Level 2	Level 3	**As at 30 June 2020**
Commercial property units located in Hong Kong	–	–	1,128	**1,128**
Commercial property units located outside Hong Kong	–	–	6,723	**6,723**

The valuation of investment properties was performed by independent qualified professional valuers not connected to the Group. Valuation methodologies include "Rental Income Approach" and "Direct Comparison Approach". The inputs to these models mainly include growth rate of rental, capitalisation rate and unit price.

(All amounts expressed in millions of RMB unless otherwise stated)

25 OTHER ASSETS *(Continued)*

(c) Allowance for impairment losses

	As at 1 January 2020	Amounts accrued	Reversal	Written-offs	Transfers (in)/out	Recoveries after written-offs	Exchange differences	As at 30 June 2020
Other receivables and prepayments	(2,717)	(1,223)	228	745	–	(52)	(12)	(3,031)
Total	(2,717)	(1,223)	228	745	–	(52)	(12)	(3,031)

	As at 1 January 2019	Amounts accrued	Reversal	Written-offs	Transfers (in)/out	Recoveries after written-offs	Exchange differences	As at 31 December 2019
Other receivables and prepayments	(2,152)	(2,134)	524	1,140	(13)	(80)	(2)	(2,717)
Total	(2,152)	(2,134)	524	1,140	(13)	(80)	(2)	(2,717)

(d) Goodwill

	As at 1 January 2020	Addition during the period	Decrease during the period	Exchange differences	As at 30 June 2020
Bank of Communications International Trust Co., Ltd.	200	–	–	–	200
BoCommLife Insurance Company Limited	122	–	–	–	122
BANCO Bocom BBM S.A	108	–	–	(23)	85
Total	430	–	–	(23)	407

	As at 1 January 2019	Addition during the year	Decrease during the year	Exchange differences	As at 31 December 2019
Bank of Communications International Trust Co., Ltd.	200	–	–	–	200
BoCommLife Insurance Company Limited	122	–	–	–	122
BANCO Bocom BBM S.A	115	–	–	(7)	108
Total	437	–	–	(7)	430

(All amounts expressed in millions of RMB unless otherwise stated)

25 OTHER ASSETS *(Continued)*

(e) Right-of-use assets

	As at 30 June 2020	As at 31 December 2019
Gross:		
Opening balance	**13,513**	14,493
Additions	**1,213**	2,124
Decreases	**(1,089)**	(3,104)
Balance at the end of the period/year	**13,637**	13,513
Accumulated depreciation:		
Opening balance	**(6,992)**	(7,372)
Additions	**(1,204)**	(2,550)
Decreases	**1,151**	2,930
Balance at the end of the period/year	**(7,045)**	(6,992)
Net book value:	**6,592**	6,521
Lease liabilities	**6,488**	6,344

As at 30 June 2020, committed by leases but not yet commenced amount to RMB105 million (as at 31 December 2019: RMB195 million).

The Group's right-of-use assets include the above assets and land use rights.

26 DUE TO AND PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 30 June 2020	As at 31 December 2019
Borrowing from central banks	**436,224**	456,314
Accrued interest	**7,210**	6,619
Due to banks		
– Banks operating in Mainland China	**282,815**	284,254
– Banks operating outside Mainland China	**11,205**	14,213
Due to other financial institutions		
– Other financial institutions operating in Mainland China	**600,996**	602,870
– Other financial institutions operating outside Mainland China	**10,753**	14,645
Accrued interest	**5,024**	5,672
Placements from banks		
– Banks operating in Mainland China	**209,707**	154,740
– Banks operating outside Mainland China	**231,433**	245,877
Placements from other financial institutions		
– Other financial institutions operating in Mainland China	**600**	701
– Other financial institutions operating outside Mainland China	**11,703**	10,303
Accrued interest	**1,615**	1,016
Financial assets sold under repurchase agreements		
Securities		
– Governments	**9,417**	4,505
– Policy banks	**2,264**	4,325
– Financial institutions	**32,163**	21,704
– Corporates	**3,516**	3,642
Bills	**60,023**	72,553
Accrued interest	**91**	129
Total	**1,916,759**	1,904,082

(All amounts expressed in millions of RMB unless otherwise stated)

27 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 30 June 2020	As at 31 December 2019
Certificates of deposit issued	11,696	13,392
Financial liabilities related to precious metal contracts	14,769	12,950
Notes issued	451	638
Total	26,916	26,980

Except for certificates of deposit issued and notes issued which are designated at fair value through profit or loss, the financial liabilities at fair value through profit or loss are financial liabilities held for trading.

Financial liabilities designated at fair value through profit or loss

	As at 30 June 2020	As at 31 December 2019
Difference between carrying amount and maturity amount		
Fair values	12,147	14,030
Amount payable at maturity	11,826	13,976
Total	321	54

For the six months ended 30 June 2020 and the year ended 31 December 2019, there were no significant changes in the fair value of the Group's financial liabilities designated at fair value through profit or loss that were attributable to the changes in credit risk.

28 DUE TO CUSTOMERS

	As at 30 June 2020	As at 31 December 2019
Corporate demand deposits	1,952,384	1,835,688
Corporate time deposits	2,403,927	2,196,096
Individual demand deposits	829,632	762,669
Individual time deposits	1,301,938	1,207,253
Other deposits	2,271	3,364
Due to customers	6,490,152	6,005,070
Accrued interest	70,715	67,838
Total	6,560,867	6,072,908
Including:		
Deposits pledged as collateral	268,810	246,727

29 CERTIFICATES OF DEPOSITS ISSUED

Certificates of deposits at period end were issued by the Bank's domestic branches, branches in Macau, Hong Kong, New York, Tokyo, Singapore, Seoul, Sydney, London and Luxembourg, and BANCO Bocom BBM S.A., which were measured at amortised cost.

For the six months ended 30 June 2020
(All amounts expressed in millions of RMB unless otherwise stated)

30 DEBT SECURITIES ISSUED

		As at 30 June 2020	As at 31 December 2019
Carried at amortised cost:			
Subordinated bonds	30.1	**25,950**	25,950
Tier 2 capital bonds			
The Bank	30.2	**113,918**	73,843
Subsidiaries	30.2	**1,995**	1,994
Bonds			
The Bank	30.3	**202,264**	194,422
Subsidiaries	30.3	**93,092**	83,688
Accrued interest		**8,077**	3,584
Subtotal		**445,296**	383,481
Carried at fair value:			
Bonds			
The Bank	30.3	**14,109**	20,437
Total		**459,405**	403,918

Note1: Debt securities issued are designated as fair value through profit or loss upon initiation as the Hong Kong branch of the Bank considers such designation could eliminate or significantly reduce a measurement or recognition inconsistency that would otherwise result from measuring the corresponding financial assets or recognising the gains or losses on them on different basis. Accordingly, the debts are designated as fair value through profit or loss with changes in fair values charged to profit and loss account. For the six months ended 30 June 2020 and the year ended 31 December 2019, there were no significant changes that were attributable to the Group's changes in credit risks.

30.1 Subordinated bonds

Detailed information of subordinated bonds is disclosed as follows:

	Currency	Issue place	Coupon rate %	Par value (CCY)	Issue date	Maturity	Note	Issue amount	Ending balance	Opening balance
11 BoComm 01	RMB	Mainland China	5.75	26,000	2011/10/21	15 years	(a)	26,000	25,950	25,950
Total								26,000	25,950	25,950

(a) The Group has an option to redeem 11 BoComm 01 on 24 October 2021. The bonds bear a fixed coupon rate of 5.75%.

(All amounts expressed in millions of RMB unless otherwise stated)

30 DEBT SECURITIES ISSUED *(Continued)*

30.2 Tier 2 capital bonds

Detailed information of Tier 2 capital bonds is disclosed as follows:

	Currency	Issue place	Coupon rate %	Par value (CCY)	Issue date	Maturity	Note	Issue amount	Ending balance	Opening balance
The Bank										
14 BoComm 01-Euro	EUR	Hong Kong China	3.625	500	2014/10/03	12 years	(a)	3,981	3,953	3,883
17 BoComm	RMB	Mainland China	4.50	30,000	2017/04/11	10 years	(b)	30,000	29,973	29,960
19 BoComm 01	RMB	Mainland China	4.10	30,000	2019/08/14	10 years	(c)	30,000	29,997	30,000
19 BoComm 02	RMB	Mainland China	4.49	10,000	2019/08/14	15 years	(d)	10,000	9,999	10,000
20 BoComm	RMB	Mainland China	3.24	40,000	2020/05/19	10 years	(e)	40,000	39,996	–
Subtotal								113,981	113,918	73,843
Subsidiaries										
18 Leasing 02	RMB	Mainland China	5.15	2,000	2018/09/18	10 years	(f)	2,000	1,995	1,994
Subtotal								2,000	1,995	1,994
Total								115,981	115,913	75,837

(a) The Group has an option to redeem 14 BoComm 01-Euro as a whole on 3 October 2021. If the issuer does not exercise the redemption right by 3 October 2021, the interest rate will be adjusted based on interest rate of 5-year Euro plus 300 basis points.

(b) The Group has an option to redeem them at the par value partially or as a whole on 13 April 2022, the first day upon the end of the fifth interest-bearing year, provided that CBIRC's permission is acquired in advance and the Group's capital structure fulfills the CBIRC requirements on capital if the redemption is exercised.

(c) The Group has an option to redeem them at the par value partially or as a whole on 16 August 2024, the last day of the interest-bearing year with early redemption option embedded, provided that CBIRC's permission is acquired in advance and the Group's capital structure fulfills the CBIRC requirements on capital if the redemption is exercised.

(d) The Group has an option to redeem them at the par value partially or as a whole on 16 August 2029, the last day of the interest-bearing year with early redemption option embedded, provided that CBIRC's permission is acquired in advance and the Group's capital structure fulfills the CBIRC requirements on capital if the redemption is exercised.

(e) The Group has an option to redeem them at the par value partially or as a whole on 21 May 2025, the last day of the interest-bearing year with early redemption option embedded, provided that CBIRC's permission is acquired in advance and the Group's capital structure fulfills the CBIRC requirements on capital if the redemption is exercised.

(f) The Group has an option to redeem them at the par value partially or as a whole on 20 September 2023, the first day upon the end of the fifth interest-bearing year, provided that CBIRC's permission is acquired in advance and the Group's capital structure fulfills the CBIRC requirements on capital if the redemption is exercised.

These Tier 2 capital bonds have the write-down feature, which allows the Group to write down the entire principal of the bonds when regulatory triggering events as stipulated in the offering documents occur and any accumulated unpaid interest would become not payable. These bonds are regarded as Tier 2 capital without any guarantees provided and the proceeds of the debts cannot be used for compensating daily operating loss of the Group.

(All amounts expressed in millions of RMB unless otherwise stated)

30 DEBT SECURITIES ISSUED *(Continued)*

30.3 Bonds

Detailed information of bonds held at amortised cost is as follows:

	Currency	Issue place	Coupon rate %	Par value (CCY)	Issue date	Maturity	Issue amount	Ending balance	Opening balance
The Bank									
15 BoComm	RMB	Mainland China	3.45	30,000	2015/12/17	5 years	30,000	30,000	30,000
16 BoComm Green Financial bond 02	RMB	Mainland China	3.25	20,000	2016/11/18	5 years	20,000	20,000	20,000
17 BoComm Green Financial bond	RMB	Mainland China	4.29	20,000	2017/10/26	3 years	20,000	20,000	20,000
18 Bocom Micro Small Enterprises Bond	RMB	Mainland China	3.79	10,000	2018/11/28	3 years	10,000	10,000	10,000
19 Bocomm 01	RMB	Mainland China	3.35	50,000	2019/11/25	3 years	50,000	50,000	50,000
19 Bocomm 02	RMB	Mainland China	3.35	40,000	2019/12/11	3 years	40,000	40,000	40,000
14 Formosa Bond C	RMB	Taiwan China	4.15	500	2014/06/23	7 years	500	501	498
17 medium-term notes 01	USD	Hong Kong China	3MLibor +0.78	700	2017/05/15	3 years	4,956	–	4,886
17 medium-term notes 02	USD	Hong Kong China	3MLibor +0.88	300	2017/05/15	5 years	2,124	2,124	2,094
17 medium-term notes 03	USD	Hong Kong China	3MLibor +0.80	400	2017/12/04	3 years	2,832	2,832	2,792
17 medium-term notes 04	USD	Hong Kong China	3MLibor +0.90	600	2017/12/04	5 years	4,248	4,248	4,188
18 medium-term notes 01	USD	Hong Kong China	3MLibor +0.75	600	2018/05/17	3 years	4,248	4,248	4,188
18 medium-term notes 02	USD	Hong Kong China	3MLibor +0.85	700	2018/05/17	5 years	4,956	4,955	4,886
20 Hong Kong medium-term notes 01	HKD	Hong Kong China	2.25	2,800	2020/01/22	2 years	2,558	2,558	–
20 Hong Kong medium-term notes 02	USD	Hong Kong China	3MLibor +0.58	1,300	2020/01/22	3 years	9,203	9,202	–
20 Hong Kong medium-term notes 04	USD	Hong Kong China	3MLibor +0.75	100	2020/06/05	3 years	708	706	–
P14JHTP1C	RMB	Taiwan China	3.90	700	2014/12/04	7 years	700	692	692
P14JHTP1D	RMB	Taiwan China	4.00	200	2014/12/04	10 years	200	198	198
Sub-total							207,233	202,264	194,422

(All amounts expressed in millions of RMB unless otherwise stated)

30 DEBT SECURITIES ISSUED *(Continued)*

30.3 Bonds *(Continued)*

	Currency	Issue place	Coupon rate %	Par value (CCY)	Issue date	Maturity	Issue amount	Ending balance	Opening balance
Subsidiaries									
13 Azure Orbit	USD	Hong Kong China	3.75	500	2013/03/06	10 years	3,233	3,537	3,484
5 Year medium-term notes	USD	Hong Kong China	3.125	385	2015/08/18	5 years	2,490	2,533	2,497
5 Year USD bond	USD	Hong Kong China	2.625	600	2016/03/15	5 years	3,880	4,244	4,179
3 Year USD bond	USD	Hong Kong China	3.50	300	2018/01/25	3 years	1,940	2,121	2,090
5 Year USD bond	USD	Hong Kong China	3.75	950	2018/01/25	5 years	6,143	6,674	6,592
10 Year USD bond	USD	Hong Kong China	4.00	250	2018/01/25	10 years	1,617	1,750	1,727
19 Brazil bonds	BRL	Brazil	110% SELIC	200	2019/01/30	5 years	262	52	66
16 Leasing 03	RMB	Mainland China	3.25	500	2016/09/07	5 years	500	450	449
17 Leasing 01	RMB	Mainland China	4.53	2,000	2017/07/18	3 years	2,000	1,950	1,949
17 Leasing 02	RMB	Mainland China	4.60	3,000	2017/08/22	3 years	3,000	2,400	2,398
17 Leasing 03	RMB	Mainland China	4.70	3,000	2017/10/18	3 years	3,000	2,399	2,398
18 Leasing 01	RMB	Mainland China	4.53	4,000	2018/07/05	3 years	4,000	3,996	3,994
18 Leasing 02	RMB	Mainland China	4.14	4,000	2018/10/22	3 years	4,000	3,995	3,993
19 Leasing 01	RMB	Mainland China	3.68	5,000	2019/05/20	3 years	5,000	4,992	4,550
19 Leasing 02	RMB	Mainland China	3.65	5,000	2019/07/08	3 years	5,000	4,992	4,990
19 Leasing 03	RMB	Mainland China	3.49	3,500	2019/10/22	3 years	3,500	3,494	3,492
Azure Nova	USD	Hong Kong China	2.625	1,000	2016/10/25	5 years	7,080	7,065	6,956
Azure Nova	USD	Hong Kong China	3.00	700	2017/03/21	3 years	4,956	–	4,882
Azure Nova	USD	Hong Kong China	3.50	1,050	2017/03/21	5 years	7,433	7,422	7,308
Azure Nova	USD	Hong Kong China	4.25	250	2017/03/21	10 years	1,770	1,764	1,737
19 USD medium-term notes 01	USD	Hong Kong China	4.00	800	2019/01/22	3 years	5,664	4,023	4,134
19 USD medium-term notes 02	USD	Hong Kong China	4.375	700	2019/01/22	5 years	4,956	2,932	3,139
19 USD medium-term notes 03	USD	Hong Kong China	3MLibor+1.20	120	2019/04/12	3 years	850	850	837
19 USD medium-term notes 04	USD	Hong Kong China	3MLibor+1.175	400	2019/09/05	5 years	2,832	1,441	1,408
19 USD medium-term notes 05	USD	Hong Kong China	2.625	200	2019/09/05	5 years	1,416	873	914
19 USD medium-term notes 06	USD	Hong Kong China	3MLibor+1.05	180	2019/10/25	3 years	1,274	1,275	1,256
19 USD medium-term notes 07	USD	Hong Kong China	3MLibor+1.075	600	2019/12/10	5 years	4,248	1,942	2,269
20 USD medium-term notes 01	USD	Hong Kong China	3MLibor+0.95	500	2020/03/02	5 years	3,540	2,203	–
20 USD medium-term notes 02	USD	Hong Kong China	3MLibor+0.83	300	2020/03/02	3 years	2,124	1,742	–
20 Financial Investing 01	RMB	Mainland China	2.70	3,000	2020/03/11	3 years	3,000	2,995	–
20 Financial Investing 02	RMB	Mainland China	2.80	7,000	2020/03/11	5 years	7,000	6,986	–
Sub-total							107,708	93,092	83,688
Total							314,941	295,356	278,110

For the six months ended 30 June 2020
(All amounts expressed in millions of RMB unless otherwise stated)

30 DEBT SECURITIES ISSUED *(Continued)*

30.3 Bonds *(Continued)*

Detailed information of bonds held at fair value is as follows:

	Currency	Issue place	Coupon rate %	Par value (CCY)	Issue date	Maturity	Issue amount	Fair value at the end of the period	Fair value at the beginning of the period
14 Hong Kong bond	HKD	Hong Kong China	4.00	500	2014/02/14	7 years	457	472	462
17 Hong Kong USD medium-term notes	USD	Hong Kong China	3MLibor +0.78	850	2017/02/21	3 years	6,018	–	5,931
18 Hong Kong medium-term notes	HKD	Hong Kong China	2.95	3,000	2018/05/18	2 years	2,740	–	2,743
19 Hong Kong RMB medium-term notes	RMB	Hong Kong China	3.40	2,500	2019/03/21	2 years	2,500	2,548	2,526
19 Hong Kong medium-term notes	HKD	Hong Kong China	2.85	3,500	2019/03/21	5 years	3,197	3,343	3,186
19 Hong Kong USD medium-term notes	USD	Hong Kong China	3MLibor +0.78	800	2019/03/21	3 years	5,664	5,692	5,589
20 Hong Kong medium-term notes 03	RMB	Hong Kong China	3.15	2,000	2020/01/22	2 years	2,000	2,054	–
Total							22,576	14,109	20,437

31 OTHER LIABILITIES

	As at 30 June 2020	As at 31 December 2019
Lease liabilities	**6,488**	6,344
Insurance contracts reserve	**40,987**	31,936
Settlement accounts	**33,600**	19,275
Staff compensation payable	**6,872**	11,118
Deposits received for finance lease	**6,988**	7,661
VAT and other taxes payable	**5,224**	4,536
Provision for outstanding litigations (a)	**950**	1,029
Allowance for impairment losses of off-balance sheet businesses (b)	**7,943**	6,332
Dividends payable	**26,299**	87
Others	**87,687**	75,063
Total	**223,038**	163,381

(All amounts expressed in millions of RMB unless otherwise stated)

31 OTHER LIABILITIES *(Continued)*

(a) Movements in the provision for outstanding litigations

	As at 1 January 2020	**Amounts accrued during the period**	**Amounts settled during the period**	**Amounts reversed during the period**	**Exchange differences**	**As at 30 June 2020**
Provision for outstanding litigations	**1,029**	**41**	**(16)**	**(104)**	**–**	**950**

	As at 1 January 2019	Amounts accrued during the year	Amounts settled during the year	Amounts reversed during the year	Exchange differences	As at 31 December 2019
Provision for outstanding litigations	982	421	(3)	(371)	–	1,029

(b) Movements in the allowance for impairment losses of off-balance sheet businesses

	Stage 1 12-month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
As at 1 January 2020	**5,358**	**974**	**–**	**6,332**
Addition/(Reversal)	**29**	**(139)**	**–**	**(110)**
Transfer out	**(5)**	**(412)**	**–**	**(417)**
Transfers:	**(29)**	**29**	**–**	**–**
Transfer between Stage 1 and Stage 2, net	**(29)**	**29**	**–**	**–**
Remeasurement	**1,950**	**184**	**–**	**2,134**
Exchange differences	**4**	**–**	**–**	**4**
As at 30 June 2020	**7,307**	**636**	**–**	**7,943**

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2019	4,741	340	–	5,081
Addition	1,068	917	–	1,985
Transfer out	(7)	(182)	–	(189)
Transfers:	(8)	8	–	–
Transfer between Stage 1 and Stage 2, net	(8)	8	–	–
Remeasurement	(442)	(109)	–	(551)
Exchange differences	6	–	–	6
As at 31 December 2019	5,358	974	–	6,332

For the six months ended 30 June 2020
(All amounts expressed in millions of RMB unless otherwise stated)

32 SHARE CAPITAL AND CAPITAL SURPLUS

	Number of shares (in millions)	**Ordinary shares of RMB1 each**	**Capital surplus**	**Total**
As at 1 January 2020	**74,263**	**74,263**	**113,663**	**187,926**
As at 30 June 2020	**74,263**	**74,263**	**113,663**	**187,926**

	Number of shares (in millions)	Ordinary shares of RMB1 each	Capital surplus	Total
As at 1 January 2019	74,263	74,263	113,663	187,926
As at 31 December 2019	74,263	74,263	113,663	187,926

As at 30 June 2020 and 31 December 2019, the number of A shares of the Group was 39,251 million, and the number of H shares of the Group was 35,012 million, both with par value of RMB1 per share.

As at 30 June 2020 and 31 December 2019, the Group's capital surplus is listed as follows:

	As at 1 January 2020	**Additions**	**Reductions**	**As at 30 June 2020**
Share premium	**113,046**	**–**	**–**	**113,046**
Property revaluation gain designated by MOF	**472**	**–**	**–**	**472**
Donation of non-cash assets	**148**	**–**	**–**	**148**
Movements in non-controlling interests	**(41)**	**–**	**–**	**(41)**
Capital increase in an associate	**16**	**–**	**–**	**16**
Others	**22**	**–**	**–**	**22**
Total	**113,663**	**–**	**–**	**113,663**

	As at 1 January 2019	Additions	Reductions	As at 31 December 2019
Share premium	113,046	–	–	113,046
Property revaluation gain designated by MOF	472	–	–	472
Donation of non-cash assets	148	–	–	148
Movements in non-controlling interests	(41)	–	–	(41)
Capital increase in an associate	16	–	–	16
Others	22	–	–	22
Total	113,663	–	–	113,663

33 OTHER EQUITY INSTRUMENTS

33.1 Preference shares

33.1.1Preference shares outstanding at the end of the period

	Issue date	Accounting classification	Dividend rate	Issue price	Amount in shares	In original currency (in millions)	In RMB (in millions)	Maturity	Conversion condition	Conversion
Offshore preference shares										
Preference shares in USD	2015-07-29	Equity	5.00%	USD20/ share	122,500,000	2,450	14,982	No maturity date	Mandatory	No conversion during the period
Domestic preference shares										
Preference shares in RMB	2016-09-02	Equity	3.90%	RMB100/ share	450,000,000	45,000	45,000	No maturity date	Mandatory	No conversion during the period
					Total		59,982			
					Less: Issuance fees		(106)			
					Carrying amount		59,876			

33.1.2Main clauses

Offshore preference shares

(a) Dividend

The offshore preference shares will accrue dividends on their issue price at the relevant dividend rate below:

(1) From and including the issue date to but excluding the first reset date, at the rate of 5.00% per annum; and

(2) The dividend rate will be re-priced every five years thereafter with reference to the five-year US treasury bonds yield plus a fixed premium of 3.344%. As authorised by the shareholders' annual general meeting, the Board of Directors has the sole discretion to declare and distribute dividends on offshore preference shares.

The dividend for offshore preference shares is non-cumulative. Where the Bank determines to cancel the dividend for offshore preference shares in whole or in part, the omitted dividend will not be carried forward and claimed in the future period. After receiving dividends at the agreed dividend rate, offshore preference shareholders of the Bank will not participate in the distribution of residual profits with ordinary shareholders. Domestic preference shares issued by the Bank have the same dividend distribution order as the offshore preference shares.

(b) Conditions to distribution of dividends

The Bank could pay dividends while the Bank still has distributable after-tax profit after making up previous years' losses, contributing to the statutory reserve and making general provisions, and the Bank's capital adequacy ratio meets regulatory requirements. Offshore preference shareholders of the Bank are senior to the ordinary shareholders on the right to dividends.

Subject to a resolution to be passed at a shareholders' general meeting of the Bank on each such occasion, the Bank may elect to cancel (in whole or in part) any dividend. The Bank shall not distribute any dividends to its ordinary shareholders before it declares such dividends to preference shareholders for the relevant periods.

33 OTHER EQUITY INSTRUMENTS *(Continued)*

33.1 Preference shares *(Continued)*

33.1.2Main clauses *(Continued)*

Offshore preference shares (Continued)

(c) Mandatory conversion trigger events

Upon occurrence of the triggering events as stipulated by the offering documents and subject to regulatory approval, offshore preference share shall be mandatorily converted into ordinary H Shares of the Bank (as converted into Hong Kong dollars at the fixed exchange rate of USD1.00 to HKD7.7555), partially or entirely. The initial mandatory convertible price is HKD6.51 per share. To balance the interest between preference shareholders and ordinary shareholders, the mandatory conversion price of the preference shares will be cumulatively adjusted in sequence where certain events occur including issuances of bonus shares, capitalisation of reserves, new issuances of ordinary shares at a price lower than the market price (excluding equity increases due to exercise of convertible financing instruments that can be converted into ordinary shares) and rights issues, subject to terms and formulas provided for in the offering documents. Appropriation of dividends to ordinary shareholders is not trigger event for price adjustment.

(d) Order of distribution and liquidation method

On winding-up of the Bank, distribution to offshore preference shareholders is made after all debts of the Bank (including subordinated debts) and obligations that are issued or guaranteed by the Bank and specifically stated to be distributed prior to the offshore preference shares; all offshore preference shareholders are ranked the same in the distribution sequence without priority among them and have the same repayment sequence rights as holders of obligations with equivalent rights. In addition, distribution is made to offshore preference shareholders prior to ordinary shareholders.

On winding-up of the Bank, any remaining assets of the Bank shall, after the distributions in accordance with the terms and conditions of the offshore preference shares have been made, be applied to the claims of the offshore preference shareholders equally in all respects with the claims of holders of any parity obligations (which term, for the avoidance of doubt, includes the domestic preference shares and any other preference shares of the Bank issued from time to time to investors outside the PRC) and in priority to the claims of the holders of ordinary shares.

The distribution amount obtained by the offshore preference shareholders shall be the total par value of the issued and outstanding preference shares plus dividends declared but not paid in the current period; if the distribution amount is insufficient, domestic and offshore preference shareholders will share the distribution amount on a proportional basis.

(e) Redemption

The offshore preference shares are perpetual and have no maturity date. The Bank may, subject to obtaining CBIRC approval and in compliance with the redemption preconditions, redeem all or some of the offshore preference shares on 29 July 2020 and on any dividend payment date thereafter. The redemption period ends at the date when shares are fully converted or redeemed.

33 OTHER EQUITY INSTRUMENTS *(Continued)*

33.1 Preference shares *(Continued)*

33.1.2Main clauses *(Continued)*

Domestic preference shares

(a) Dividend

The domestic preference shares will accrue dividends on their issue price at the relevant dividend rate below:

(1) From and including the issue date to but excluding the first reset date, at the rate of 3.90% per annum; and

(2) The dividend rate will be re-priced every five years thereafter with reference to the arithmetic average value (rounding off to 0.01%) of five-year Chinese treasury bonds yield at the date which is 20 transaction days before the reset date (excluding the date) plus a fixed premium of 1.37%. As authorised by the shareholders' annual general meeting, the Board of Directors has the sole discretion to declare and distribute dividends on domestic preference shares.

The dividend for domestic preference shares is non-cumulative. Where the Bank determines to cancel the dividend for domestic preference shares in whole or in part, the omitted dividend will not be carried forward and claimed in the future period. After receiving dividends at the agreed dividend rate, domestic preference shareholders of the Bank will not participate in the distribution of residual profits with ordinary shareholders. Domestic preference shares issued by the Bank have the same dividend distribution order as the offshore preference shares.

(b) Conditions to distribution of dividends

The Bank could pay dividends while the Bank still has distributable after-tax profit after making up previous years' losses, contributing to the statutory reserve and making general provisions, and the Bank's capital adequacy ratio meets regulatory requirements. Domestic preference shareholders of the Bank are senior to the ordinary shareholders on the right to dividends.

Subject to a resolution to be passed at a shareholders' general meeting of the Bank on each such occasion, the Bank may elect to cancel (in whole or in part) any preference share dividend. The Bank shall not distribute any dividends to its ordinary shareholders before it declares such dividends to preference shareholders for the relevant periods.

(c) Mandatory conversion trigger events

Upon occurrence of the triggering events as stipulated by the offering documents and subject to regulatory approval, domestic preference shares shall be mandatorily converted into ordinary A Shares of the Bank, partially or entirely. The initial mandatory conversion price is RMB6.25 per share. To balance the interest between preference shareholders and ordinary shareholders, the mandatory conversion price of the preference shares will be cumulatively adjusted in sequence where certain events occur including issuances of bonus shares, capitalisation of reserves, new issuances of ordinary shares at a price lower than the market price (excluding equity increased due to exercise of convertible financing instruments that can be converted into ordinary shares) and rights issues, subject to terms and formulas provided for in the offering documents. Appropriation of dividends to ordinary shareholders is not trigger event for price adjustment.

(All amounts expressed in millions of RMB unless otherwise stated)

33 OTHER EQUITY INSTRUMENTS *(Continued)*

33.1 Preference shares *(Continued)*

33.1.2Main clauses *(Continued)*

Domestic preference shares (Continued)

(d) Order of distribution and liquidation method

On winding-up of the Bank, distribution to domestic preference shareholders is made after all debts of the Bank (including subordinated debts) and obligations that are issued or guaranteed by the Bank and specifically stated to be distributed prior to the domestic preference shares; all domestic preference shareholders are ranked at the same in the distribution sequence without priority among them and have the same repayment sequence rights as holders of obligations with equivalent rights. In addition, distribution is made to domestic preference shareholders prior to ordinary shareholders.

On winding-up of the Bank, any remaining assets of the Bank shall, after the distributions in accordance with the terms and conditions of the domestic preference shares have been made, be applied to the claims of the domestic preference shareholders equally in all respects with the claims of holders of any parity obligations (which term, for the avoidance of doubt, includes the domestic preference shares and any other preference shares of the Bank issued from time to time to investors outside the PRC) and in priority to the claims of the holders of ordinary shares.

The distribution amount obtained by the domestic preference shareholders shall be the total par value of the issued and outstanding preference shares plus dividends declared but not paid in the current period; if the distribution amount is insufficient, domestic and offshore preference shareholders will share the distribution amount on a proportional basis.

(e) Redemption

The domestic preference shares are perpetual and have no maturity date. The Bank may, subject to obtaining CBIRC approval and in compliance with the redemption preconditions, redeem all or some of the domestic preference shares on 2 September 2021 and on any preference share dividend payment date thereafter. The redemption period ends at the date when shares are fully converted or redeemed.

33.1.3Movements of preference shares issued

		Movements		
	As at 1 January 2020	Additions	Decreases	As at 30 June 2020
Offshore preference shares				
Amount (shares)	122,500,000	–	–	**122,500,000**
In RMB (millions)	14,924	–	–	**14,924**
Domestic preference shares				
Amount (shares)	450,000,000	–	–	**450,000,000**
In RMB (millions)	44,952	–	–	**44,952**

33 OTHER EQUITY INSTRUMENTS *(Continued)*

33.2 Perpetual bonds

33.2.1 Perpetual bonds outstanding at the end of the period

	Issue date	Accounting classification	Original interest rate	Issue price	Amount in shares	In original currency (in millions)	In RMB (in millions)	Maturity
Perpetual bonds in RMB	18 September 2019	Equity	4.20%	RMB100/ bond	400,000,000	40,000	40,000	No fixed maturity date
					Total		40,000	
					Less: Issue fees		(6)	
					Carrying amount		39,994	

33.2.2 Main clauses

(1) Principal amount

The principal amount is RMB40 billion.

(2) Maturity date

The perpetual bonds will continue to be outstanding so long as the Bank's business continues to operate.

(3) Coupon rate

The coupon rate of the perpetual bonds will be adjusted every 5 years from the settlement date of issuance. During each coupon rate adjustment period, the interest payments will be calculated at the same coupon rate. The coupon rate at the time of issuance will be determined by book building and centralised allocation. The interest rate of the perpetual bonds does not contain any interest rate step-up mechanism or any other redemption incentives.

The coupon rate is determined by a benchmark rate plus a fixed spread. The benchmark rate is the arithmetic average of the yields to maturity (rounded up to 0.01%) of 5 (exclusive) trading days prior to the announcement date of the subscription agreement, as indicated by the applicable China Bond Government Bond Yield Curve for five-year products published on www.ChinaBond.com.cn (or other websites approved by the China Central Depository & Clearing Co., Ltd.). The fixed spread is the difference between the coupon rate and the benchmark rate as determined at the time of issuance. The fixed spread will not be adjusted once determined.

(4) Conditional redemption rights of the Bank

The Bank has conditional redemption rights. After five years from the issuance of the perpetual bonds, the Bank may redeem the perpetual bonds in whole or in part on each distribution payment date (including the fifth distribution payment date since the issuance). If, after the issuance, the perpetual bonds no longer qualify as Additional Tier 1 Capital as a result of an unforeseeable change or amendment to relevant provisions of supervisory regulations, the Bank may redeem the whole but not part of the perpetual bonds.

(5) Subordination

The claims in respect of the perpetual bonds are subordinated to the claims of depositors, general creditors, and subordinated indebtedness that rank senior to the perpetual bonds; and will rank in priority to all classes of equity 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 perpetual bonds. If subsequent amendments to the PRC Enterprise Bankruptcy Law or relevant regulations are applicable to the Bank, such relevant laws and regulations shall prevail.

For the six months ended 30 June 2020
(All amounts expressed in millions of RMB unless otherwise stated)

33 OTHER EQUITY INSTRUMENTS *(Continued)*

33.2 Perpetual bonds *(Continued)*

33.2.2Main clauses *(Continued)*

(6) Write-down/Write-off clauses

Upon the occurrence of Additional Tier 1 Capital Trigger Event, namely, the Bank's Core Tier 1 Capital Adequacy Ratio having fallen to 5.125% (or below), the Bank has the right, subject to the approval of the China Banking and Insurance Regulatory Commission but without the need for the consent of the bondholders, to write down whole or part of the aggregate amount of the perpetual bonds then issued and outstanding, in order to restore the Core Tier 1 Capital Adequacy Ratio to above 5.125%. In the case of a partial write-down, all of the perpetual bonds then issued and outstanding shall be written down on a pro rata basis, according to the outstanding par value, with all Additional Tier 1 Capital instruments with equivalent write-down clauses of the Bank. The perpetual bonds may be subject to write-down more than once, in order to restore the Core Tier 1 Capital Adequacy Ratio of the Bank to above 5.125%.

(7) Distribution payment

The Bank shall have the right to cancel, in whole or in part, distributions on the bonds and any such cancellation shall not constitute an event of default. When exercising such right, the Bank will take into full consideration the interest of the bondholders. The Bank may, at its sole discretion, use the proceeds from the cancelled distributions to meet other obligations as they fall due. Cancellation of any distributions on the bonds, no matter in whole or in part, will not impose any other restriction on the Bank, except in relation to dividend distributions to ordinary shares. Any cancellation of any distribution on the bonds, no matter in whole or in part, will require the deliberation and approval of the general shareholders meeting, and the Bank shall give notice to the investors on such cancellation in a timely manner.

The distributions on the perpetual bonds are non-cumulative, namely, upon cancellation, any amount of distribution unpaid to the holders of the perpetual bonds in the applicable period will not accumulate or compound to the subsequent distribution period thereafter.

(8) Put option

Investors have no right to redeem their subscription from the Bank.

The net proceeds from the Bank's issuance of the above bonds, after deducting offering related expenses, will be used to replenish the Additional Tier 1 Capital of the Bank.

33.3 Interests attributable to holders of other equity instruments

	As at 30 June 2020	As at 31 December 2019
Total equity attributable to equity holders of the parent company	**802,543**	793,247
Equity attributable to ordinary shareholders of the parent company	**702,673**	693,377
Equity attributable to preference shareholders of the parent company	**59,876**	59,876
Equity attributable to perpetual bond holders of the parent company	**39,994**	39,994
Including: Net profit attributable to preference shareholders	**2,714**	*2,671*
Dividends paid to preference shareholders during the period	**2,714**	*2,671*
Total equity attributable to non-controlling interests	**11,589**	7,665
Equity attributable to non-controlling interests of ordinary shares	**8,053**	7,665
Equity attributable to non-controlling interests of Non-cumulative Subordinated Additional Tier 1 Capital Securities *(Note 3b)*	**3,536**	–

(All amounts expressed in millions of RMB unless otherwise stated)

34 RESERVES AND RETAINED EARNINGS

Pursuant to the relevant PRC regulations, the appropriation of profits to the statutory general reserve, the discretionary reserve and the distribution of dividends in each year are based on the recommendations of the Directors and are subject to the resolutions to be passed at the General Meeting.

Pursuant to the relevant PRC regulations, the bank is required to appropriate 10% of its net profit for the year to the undistributable statutory surplus reserve until the reserve balance reaches 50% of its registered capital.

Pursuant to the relevant PRC banking regulations, the Bank is required to transfer a certain amount of its net income to the statutory general reserve through its profit appropriation. It is determined based on the overall unidentified loss exposure; normally no lower than 1.5% of the ending balance of risk assets. The statutory general reserve is an integral part of shareholders' equity but not subject to dividend distribution. Such statutory general reserve is recognised in the statement of financial position upon approval by the shareholders at the Annual General Meeting. Regulatory reserve of the Hong Kong branch required by the Hong Kong Monetary Authority is also included in above statutory general reserve.

Since 1 July 2012, pursuant to *Administrative Measures for the Provisioning of Financial Enterprises* (Cai Jin [2012] No. 20), the Bank made general reserve for the risk assets as defined by the policy. The Bank's subsidiaries and oversea branches, if required by local regulation requirements, also need to make such accrual for risk assets.

In accordance with the relevant PRC legislation, upon the approval by shareholders at the General Meeting, discretionary reserve can be appropriated following the appropriation of statutory reserve from the distributable profit of the Bank and its domestic subsidiaries.

The 2019 Annual General Meeting of Shareholders, held on 30 June 2020, considered and adopted the 2019 profit distribution scheme, which stipulates the follows:

	Six months ended 30 June	
	2020	2019
Statutory reserve	**7,075**	–
Statutory general reserve	**4,454**	2,738
Discretionary reserve	**–**	–
Total	**11,529**	2,738

For the six months ended 30 June 2020, the Group and the Bank transferred RMB4,690 million (for the six months ended 30 June 2019: RMB2,850 million) and RMB4,454 million (for the six months ended 30 June 2019: RMB2,738 million) respectively to the General Reserve pursuant to the regulatory requirements in the PRC and overseas jurisdictions. Of this amount, RMB4,454 million (for the six months ended 30 June 2019: RMB2,738 million) related to general reserve proposed for the Bank for the year ended 31 December 2019 was approved in the 2019 Annual General Meeting of Shareholders dated 30 June 2020.

For the six months ended 30 June 2020
(All amounts expressed in millions of RMB unless otherwise stated)

34 RESERVES AND RETAINED EARNINGS *(Continued)*

The movements of retained earnings are set out below:

As at 31 December 2019	**177,141**
Profit for the period	**36,505**
Appropriation to statutory reserve	**(7,209)**
Appropriation to general reserve	**(4,690)**
Appropriation to discretionary reserve	**–**
Dividends payable to ordinary shareholders	**(23,393)**
Dividends payable to preference shareholders	**(2,714)**
Transferred from other comprehensive income	**(2)**
As at 30 June 2020	**175,638**
As at 31 December 2018	129,161
Impact from adoption of IFRS 16	(616)
Opening balance under IFRS 16	128,545
Profit for the year	77,281
Appropriation to statutory reserve	(381)
Appropriation to general reserve	(3,286)
Appropriation to discretionary reserve	(57)
Dividends payable to ordinary shareholders	(22,279)
Dividends payable to preference shareholders	(2,671)
Others	(11)
As at 31 December 2019	177,141

35 DIVIDENDS

	Six months ended 30 June	
	2020	2019
Dividends to ordinary shareholders of the Bank	**23,393**	22,279
Dividends to preference shareholders of the Bank	**2,714**	2,671

Under PRC Company Law and the Bank's Articles of Association, the net profit after tax as reported in the PRC statutory financial statements can only be distributed as dividends after allowances for the following:

(1) Making up cumulative losses from prior years, if any;

(2) Allocations to the non-distributable statutory reserve of 10% of the net profit of the Bank as determined under the relevant PRC accounting standards;

(3) Allocations to statutory general reserve;

(4) Allocations to the discretionary reserve upon approval by the Annual General Meeting. These funds form part of the shareholders' equity.

(All amounts expressed in millions of RMB unless otherwise stated)

35 DIVIDENDS *(Continued)*

The cash dividends are recognised in the consolidated statement of financial position upon approval by the shareholders at Annual General Meeting.

Pursuant to the approval by the Board meeting on 27 March 2020, the Bank appropriated overseas preference dividends on 29 July 2020 with a dividend yield of 5% (the actual dividend yield obtained by the preference shareholders) with total amount of USD136 million. The Bank will appropriate domestic preference dividends on 7 September 2020 with a dividend yield of 3.9% (the actual dividend yield obtained by the preference shareholders), with total amount of RMB1,755 million.

Pursuant to the approval by the Annual General Meeting of Shareholders on 30 June 2020, the Bank appropriated RMB4,454 million to the statutory general reserve. It was also resolved that a cash dividend of RMB0.315 (before tax) for each ordinary share, with total amount of RMB23,393 million, calculated based on 74,263 million shares outstanding (the par value per share is RMB1) as at 31 December 2019, will be distributed to ordinary shareholders.

36 NON-CONTROLLING INTERESTS

Non-controlling interests of the Group include equity attributable to non-controlling interests of ordinary shares and equity attributable to non-controlling interests of other equity instruments. As at 30 June 2020, equity attributable to holders of other equity instruments was RMB3,536 million. The other equity instrument was Non-Cumulative Subordinated Additional Tier 1 Capital Securities issued by Bank of Communications (Hong Kong) Limited on 3 March 2020.

Issue Date	3 March 2020
Face Value	U.S.$500 million
First Call Date	3 March 2025
Distribution Rate	(i) from the Issue Date to the First Call Date, 3.725% per annum (ii) for every five calendar years after the First Call Date, the then-prevailing U.S. Treasury Rate plus 2.525% per annum
Frequency of distribution payments	Semi-annually

Bank of Communications (Hong Kong) Limited may determine the policies of distribution payments and whether to redeem the bonds. The Group recognised the bonds as equity instruments.

37 FINANCIAL GUARANTEES AND CREDIT-RELATED COMMITMENTS, OTHER COMMITMENTS AND CONTINGENT LIABILITIES

Financial guarantees and credit-related commitments

The following tables provide the contractual amounts of the Group's financial guarantees and credit-related commitments which the Group has committed to its customers:

	As at 30 June 2020	As at 31 December 2019
Letters of guarantee	**292,601**	268,812
Letters of credit commitments	**154,471**	139,948
Acceptance bills	**308,017**	271,507
Credit card commitments	**763,213**	736,039
Loan commitments		
– Under 1 year	**7,008**	20,459
– 1 year and above	**52,971**	35,405
	1,578,281	1,472,170

(All amounts expressed in millions of RMB unless otherwise stated)

37 FINANCIAL GUARANTEES AND CREDIT-RELATED COMMITMENTS, OTHER COMMITMENTS AND CONTINGENT LIABILITIES *(Continued)*

Capital expenditure commitments

	As at 30 June 2020	As at 31 December 2019
Contracted but not provided for	**59,312**	60,310

Operating lease commitments

The Group acts as lessor in operating leases principally through aircraft and vessels leasing undertaken by its subsidiaries. The future minimum lease receivables on certain aircraft and vessel under irrevocable operating leases are as follows:

	As at 30 June 2020	As at 31 December 2019
Within 1 year (inclusive)	**13,957**	13,496
Beyond 1 year but no more than 2 years (inclusive)	**13,201**	12,818
Beyond 2 years but no more than 3 years (inclusive)	**12,683**	12,176
Beyond 3 years but no more than 5 years (inclusive)	**23,403**	22,920
More than 5 years	**41,513**	42,024
	104,757	103,434

Commitments on security underwriting and bond acceptance

The Group is entrusted by the Ministry of Finance ('MOF') to underwrite certain Certificated Bonds and Savings Bonds. The investors of Certificated Bonds and Savings Bonds have early redemption right while the Group has the obligation to buy back those Certificated Bonds and Savings Bonds. The redemption price is the principal value of the Certificated Bonds or Savings Bonds plus unpaid interest till redemption date. As at 30 June 2020, the principal value of the certain Certificated Bonds and Savings Bonds that the Group had the obligation to buy back amounted to RMB76,847 million (31 December 2019: RMB83,777 million). The MOF will not provide funding for the early redemption of these Certificated Bonds and Savings Bonds on a back-to-back basis but will pay interest and principal at maturity. The Group expects the amount of redemption before the maturity dates of these bonds through the Group will not be material.

The original maturities of these bonds vary from 1 to 5 years.

As at 30 June 2020, the Group had no announced but unfulfilled irrevocable commitment on security underwriting (31 December 2019: Nil).

Legal proceedings

The Group has been involved as defendants in certain lawsuits arising from its normal business operations. Management of the Group believes, based on legal advice, that the final result of these lawsuits will not have a material impact on the financial position or operations of the Group. Provision for outstanding litigation losses as advised by in-house or external legal professionals is disclosed in Note 31. The total outstanding claims against the Group (defendant) by a number of third parties at the end of the period are summarised as follows:

	As at 30 June 2020	As at 31 December 2019
Outstanding litigations	**3,843**	5,011
Provision for outstanding litigation (Note 31)	**950**	1,029

(All amounts expressed in millions of RMB unless otherwise stated)

38 COLLATERALS

(1) Assets pledged

The Group uses part of its assets as collaterals for interbank repurchase arrangements and other liabilities-related business. All of these arrangements mature within 12 months from the date they take effect. The carrying amount of these collaterals and the balance of operations related are listed below:

	Pledged assets		Associated liabilities	
	As at 30 June 2020	As at 31 December 2019	**As at 30 June 2020**	As at 31 December 2019
Investment securities	**464,437**	468,085	**390,679**	387,547
Bills	**64,051**	78,041	**64,051**	78,041
Total	**528,488**	546,126	**454,730**	465,588

Financial assets sold under repurchase agreements included certain transactions under which, title of the pledged securities has been transferred to counterparties. These transactions have been disclosed in Note 43 transfers of financial assets.

(2) Collateral accepted

The Group conducts resale agreements under usual and customary terms of placements and holds collateral for these transactions. As at 30 June 2020 and 31 December 2019, the Group did not hold any collateral for resale agreements which was permitted to sell or repledge in the absence of default on transactions. All pledges are conducted under standard and normal business terms. As at 30 June 2020 and 31 December 2019, the Group did not sell or re-pledge any collaterals received.

39 OTHER COMPREHENSIVE INCOME

	Six months ended 30 June 2020		
	Before tax amount	**Tax effect**	**Net of tax amount**
Other comprehensive income			
Loans and advances to customers – carried at FVOCI	**67**	**(16)**	**51**
Amounts recorded in equity	**331**	**(82)**	**249**
Amounts reclassified to losses/(gains) in the current period	**(264)**	**66**	**(198)**
Debt investments at FVOCI	**(1,259)**	**70**	**(1,189)**
Amounts recorded in equity	**158**	**(285)**	**(127)**
Amounts reclassified to losses/(gains) in the current period	**(1,417)**	**355**	**(1,062)**
Effective portion of gains or losses on hedging instruments in cash flow hedges	**(824)**	**169**	**(655)**
Changes in fair value recorded in equity	**(829)**	**170**	**(659)**
Changes in fair value reclassified from equity to profit or loss	**5**	**(1)**	**4**
Translation difference on foreign operations	**1,093**	**–**	**1,093**
Changes in fair value of equity investments designated at FVOCI	**(484)**	**113**	**(371)**
Changes in fair value attributable to changes in the credit risk of financial liabilities designated at FVPL	**44**	**–**	**44**
Actuarial gains on pension benefits	**(34)**	**–**	**(34)**
Others	**57**	**(3)**	**54**
Other comprehensive income for the period	**(1,340)**	**333**	**(1,007)**

For the six months ended 30 June 2020
(All amounts expressed in millions of RMB unless otherwise stated)

39 OTHER COMPREHENSIVE INCOME *(Continued)*

	Six months ended 30 June 2019		
	Before tax amount	Tax effect	Net of tax amount
Other comprehensive income			
Loans and advances to customers – carried at FVOCI	(709)	(192)	(901)
Amounts recorded in equity	(709)	(192)	(901)
Amounts reclassified to losses/(gains) in the current period	–	–	–
Debt investments at FVOCI	2,398	(838)	1,560
Amounts recorded in equity	2,639	(898)	1,741
Amounts reclassified to losses/(gains) in the current period	(241)	60	(181)
Effective portion of gains or losses on hedging instruments in cash flow hedges	(72)	11	(61)
Amounts recorded in equity	156	(46)	110
Amounts reclassified to losses/(gains) in the current period	(228)	57	(171)
Translation difference on foreign operations	141	–	141
Changes in fair value of equity investments designated at FVOCI	130	(31)	99
Changes in fair value attributable to changes in the credit risk of financial liabilities designated at FVPL	74	–	74
Actuarial gains on pension benefits	3	–	3
Others	25	(9)	16
Other comprehensive income for the period	1,990	(1,059)	931

40 NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

Analysis of the balance of cash and cash equivalents

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise the following balances with original maturities of less than or equal to 90 days used for the purpose of meeting short-term cash commitments:

	As at 30 June 2020	As at 30 June 2019
Cash and balances with central banks	**162,440**	92,702
Due from and placements with banks and other financial institutions	**85,873**	88,599
	248,313	181,301

41 CONSOLIDATED STRUCTURED ENTITIES

Structured entities consolidated by the Group include certain trust investment plans, funds and securitization products issued, managed and invested by the Group. The Group controls these entities because the Group has power over, is exposed to, or has right to, variable returns from its involvement with these entities and has the ability to use its power over these entities to affect the amount of the Group's returns. As at 30 June 2020, the consolidated structured entities sponsored and managed by the Group amounted to RMB4,317 million, and the consolidated structured entities held by Group amounted to RMB19,322 million. (As at 31 December 2019, the consolidated structured entities sponsored and managed by the Group amounted to RMB6,147 million, and the consolidated structured entities held by Group amounted to RMB19,846 million.)

(All amounts expressed in millions of RMB unless otherwise stated)

42 UNCONSOLIDATED STRUCTURED ENTITIES

The Group has been involved in other structured entities through investments in structured entities or acting as sponsors of structured entities that provide specialised investment opportunities to investors. These structured entities generally finance the purchase of assets by issuing units of the products. The Group does not control these structured entities and therefore, these structured entities are not consolidated.

As at 30 June 2020, those structured entities sponsored by the Group consist primarily of funds, trusts, asset management products, wealth management products with principals not guaranteed by the Group and securitization products. The Group earns commission income by providing management services to the investors of these structured entities. In addition, the Group is also involved in certain structured entities sponsored by the Group or third parties through direct investments. These investments are recognised as financial investments at fair value through profit or loss, financial investments at fair value through other comprehensive income, and financial investments at amortised cost.

As at 30 June 2020 and 31 December 2019, amount of unconsolidated structured entities sponsored by the Group are set out as below:

	Sponsored amount		Type of income
	As at 30 June 2020	As at 31 December 2019	
Funds	**311,738**	357,568	Commission income
Trusts and asset management products	**968,139**	893,739	Commission income
Wealth management products ("WMPs")	**1,140,217**	1,003,226	Commission income
Securitization products	**137**	295	Commission income
Total	**2,420,231**	2,254,828	

For the six months ended 30 June 2020, the Group's commission income from providing service to the investors of the structured entities managed by the Group was RMB3,107 million (For the six months ended 30 June 2019: RMB1,960 million), and interest income from placements and repurchase transactions with those unconsolidated WMPs was RMB1 million (For the six months ended 30 June 2019: RMB685 million).

As at 30 June 2020 and 31 December 2019, the carrying amount of interests in unconsolidated structured entities held by the Group through investment was set out as follows:

As at 30 June 2020

	Carrying amount				
	Financial investments at FVPL	**Financial investments at FVOCI**	**Financial investments at amortised cost**	**Maximum exposure to loss**	**Type of income**
Funds	**264,562**	**–**	**–**	**264,562**	**Net gains arising from trading activities**
Trusts and asset management products	**7,734**	**–**	**127,498**	**135,232**	**Net interest income, net gains arising from trading activities**
Wealth management products	**1,154**	**–**	**–**	**1,154**	**Net gains arising from trading activities**
Limited partnerships	**1,065**	**584**	**–**	**1,649**	**Net gains arising from trading activities, net gains arising from financial investments**
Securitization products	**–**	**–**	**7**	**7**	**Net interest income**
Total	**274,515**	**584**	**127,505**	**402,604**	

(All amounts expressed in millions of RMB unless otherwise stated)

42 UNCONSOLIDATED STRUCTURED ENTITIES *(Continued)*

The information of total size of the unconsolidated structured entities listed above is not readily available from the public domain.

As at 31 December 2019

	Carrying amount				
	Financial investments at FVPL	Financial investments at FVOCI	Financial investments at amortised cost	Maximum exposure to loss	Type of income
Funds	160,522	–	–	160,522	Net gains arising from trading activities
Trusts and asset management products	8,207	–	139,302	147,509	Net interest income, net gains arising from trading activities
Wealth management products	320	–	–	320	Net gains arising from trading activities
Limited partnerships	798	584	–	1,382	Net gains arising from trading activities, net gains arising from financial investments
Securitization products	–	–	15	15	Net interest income
Total	169,847	584	139,317	309,748	

43 TRANSFERS OF FINANCIAL ASSETS

43.1 Financial assets sold under repurchase agreements

Sales and repurchase agreements are transactions in which the Group sells a security and simultaneously agrees to repurchase it (or an asset that is substantially the same) at a fixed price on a future date. Since the repurchase prices are fixed, the Group is still exposed to substantially all the credit risks and market risks and rewards of those securities sold. These securities, which the Group does not have the ability to use during the term of the arrangements, are not derecognised from the financial statements but regarded as "collateral" for the secured lending from these because the Group retains substantially all the risks and rewards of these securities. In addition, the Group recognises a financial liability for cash received.

As at 30 June 2020 and 31 December 2019, the Group entered into repurchase agreements with certain counterparties. The proceeds from selling such securities are presented as "financial assets sold under repurchase agreements" (Note 26).

The following table provides a summary of carrying amounts related to the transferred financial assets that are not derecognised and the associated liabilities:

	Collaterals		**Associated liabilities**	
	As at 30 June 2020	As at 31 December 2019	**As at 30 June 2020**	As at 31 December 2019
Investment securities	**6,026**	10,582	**5,482**	9,828

43.2 Securities lending transactions

Transferred financial assets that do not qualify for de-recognition mainly include debt securities lent to counterparties under securities lending agreements. The counterparties are allowed to sell or repledge those securities lent under agreements to repurchase in the absence of default by the Group, but has an obligation to return the securities at the maturity of the contract. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them. As at 30 June 2020, the carrying value of debt securities lent to counterparties was RMB6,950 million (31 December 2019: RMB6,620 million).

(All amounts expressed in millions of RMB unless otherwise stated)

43 TRANSFERS OF FINANCIAL ASSETS *(Continued)*

43.3 Asset securitisation

The Group enters into securitisation transactions in the normal course of business by which it transfers credit assets to structured entities which issue asset-backed securities to investors.

The Group may retain interests in the form of subordinated tranches which may give rise to the Group's continuing involvement in the transferred assets. Those financial assets are recognised on the statement of financial position to the extent of the Group's continuing involvement. The extent of the Group's continuing involvement is the extent to which the Group is exposed to changes in the value of the transferred assets.

As at 30 June 2020, loans with an original value of RMB39,348 million and carrying amount of RMB38,790 million (31 December 2019: RMB55,702 million and RMB55,144 million) have been securitised by the Group and the Bank.

As at 30 June 2020, the Group and the Bank retained their continued involvement in securitised credit assets by holding subordinated securities. The value of the assets that the Group and the Bank continued to recognise was RMB4,275 million (31 December 2019: RMB4,864 million).

43.4 Package disposal of impaired loans and advances to customers

The Group disposes impaired loans and advances to customers through transferring to third parties in the normal course of business. For the six months ended 30 June 2020, the Group had transferred impaired loans and advances to third parties with a gross carrying amount of RMB5,770 million (31 December 2019: RMB13,132 million) and collected cash totalling RMB2,792 million (31 December 2019: RMB4,733 million) from the transfer. The difference between the gross carrying amount and the cash collected had been written off. The Group de-recognised the impaired loans and advances to customers from the Group's financial statements at the time of disposal.

44 RELATED PARTY TRANSACTIONS

(a) Transactions with the MOF

As at 30 June 2020, the MOF was holding 17,732 million (31 December 2019: 17,732 million) shares of Bank of Communications Co., Ltd. which represented 23.88% (31 December 2019: 23.88%) of the total share capital.

The MOF is a Chinese government ministry, primarily responsible for managing state fiscal revenue and expenditures, and establishing and enforcing taxation policies. The Group enters into banking transactions with the MOF under normal commercial terms and at market rates. These transactions mainly include the purchase and redemption of financial investments issued by the MOF.

Details of transaction volumes and outstanding balances are summarised below:

	As at 30 June 2020	As at 31 December 2019
Bonds issued by MOF	**655,662**	647,402
Accrued interest	**8,876**	9,515

	Six months ended 30 June	
	2020	2019
Interest income	**10,672**	9,000

For the six months ended 30 June 2020
(All amounts expressed in millions of RMB unless otherwise stated)

44 RELATED PARTY TRANSACTIONS *(Continued)*

(a) Transactions with the MOF *(Continued)*

The interest rates of the transactions between the Group and MOF are summarised below:

	Six months ended 30 June	
	2020	2019
	%	%
Bonds issued by MOF	**0.13~5.32**	2.13~5.41

(b) Transactions with National Council for Social Security Fund

As at 30 June 2020, National Council for Social Security Fund was holding 12,903 million (31 December 2019: 12,909 million) shares of Bank of Communications Co., Ltd. which represented 17.37% (31 December 2019: 17.38%) of the total share capital. Transactions between the Group and National Council for Social Security Fund mainly include deposits and are carried out under normal commercial terms and paid at market rates.

Details of transaction volumes and outstanding balances are summarised below:

	As at 30 June 2020	As at 31 December 2019
Due to customers	**81,350**	70,350
Accrued interest	**1,413**	964

	Six months ended 30 June	
	2020	2019
Interest expense	**1,758**	390

The interest rates of the transactions between the Group and the National Council for Social Security Fund are summarised below:

	Six months ended 30 June	
	2020	2019
	%	%
Due to customers	**3.85~5.30**	3.85~6.10

(All amounts expressed in millions of RMB unless otherwise stated)

44 RELATED PARTY TRANSACTIONS *(Continued)*

(c) Transactions with the Hong Kong and Shanghai Banking Corporation Limited ("HSBC") Group and its Joint Ventures

As at 30 June 2020, HSBC was holding 13,886 million (31 December 2019: 13,886 million) shares of the Bank of Communications Co., Ltd. which represented 18.70% (31 December 2019: 18.70%) of the total share capital. Transactions between the Group and HSBC are carried out under normal commercial terms and paid at market rates.

Details of transaction volumes and outstanding balances are summarised below:

	As at 30 June 2020	As at 31 December 2019
On-balance sheet items		
Due from banks and other financial institutions	**1,265**	1,302
Placements with banks and other financial institutions	**443**	–
Derivative financial assets	**941**	798
Financial investments at FVPL	**2,982**	1,323
Financial investments at amortised cost	**225**	230
Financial investments at FVOCI	**6,188**	4,634
Due to banks and other financial institutions	**827**	1,644
Placements from banks and other financial institutions	**9,184**	6,107
Financial liabilities at FVPL	**2,342**	2,424
Derivative financial liabilities	**2,420**	979
Financial assets sold under repurchase agreements	**2,664**	2,622
Off-balance sheet items		
Notional principal of derivative financial instruments	**209,279**	161,086

	Six months ended 30 June	
	2020	2019
Net losses from trading activities	**(1,482)**	(817)
Interest income	**123**	92
Interest expense	**118**	247
Fee and commission income	**27**	31
Fee and commission expense	**6**	5

The interest rates of the transactions between the Group and HSBC are summarised below:

	Six months ended 30 June	
	2020	2019
	%	%
Due from banks and other financial institutions	**0.01~0.35**	0.01~3.88
Placements with banks and other financial institutions	**0.33~2.65**	1.39~2.65
Financial assets purchased under resale agreements	**0.87~3.42**	1.38~3.10
Financial investments at FVPL	**1.49~6.00**	3.30~3.63
Financial investments at amortised cost	**3.26~4.74**	3.26~4.74
Financial investments at FVOCI	**1.26~4.95**	1.50~4.75
Due to banks and other financial institutions	**0.01~4.12**	0.01~3.80
Placements from banks and other financial institutions	**(0.24)~3.38**	(0.16)~3.46
Financial liabilities at FVPL	**0.50~0.70**	0.36~0.75
Financial assets sold under repurchase agreements	**0.84~3.07**	2.42~2.80

For the six months ended 30 June 2020
(All amounts expressed in millions of RMB unless otherwise stated)

44 RELATED PARTY TRANSACTIONS *(Continued)*

(d) Transactions with state-owned entities in PRC

The Group operates in an economic environment predominated by enterprises directly or indirectly owned and/or controlled by the Government through its authorities, affiliates or other organisations (collectively the "state-owned entities"). During the period, the Group entered into extensive banking transactions with these state-owned entities including, but not limited to, the provision of credit and guarantees, deposits, foreign exchange, derivatives transactions, agency business, underwriting and distribution of bonds issued by the Government as well as trading and redemption of securities issued by the Government.

Management considers that transactions with state-owned entities are activities conducted in the ordinary course of business, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and these state-owned entities are ultimately controlled or owned by the Government. The Group has also established pricing policies for products and services and such pricing policies do not depend on whether or not the customers are state-owned entities.

(e) Transactions with subsidiaries

Transactions between the Bank and its subsidiaries are carried out under normal commercial terms and paid at market rates. These transactions are eliminated on consolidation.

Details of transaction volumes and outstanding balances are summarised below:

The Bank	**As at 30 June 2020**	As at 31 December 2019
Due from banks and other financial institutions	**635**	338
Placements with banks and other financial institutions	**95,704**	91,307
Loans and advances to customers	**–**	1,296
Financial investments at FVPL	**885**	1,915
Financial investments at amortised cost	**2,479**	2,266
Financial investments at FVOCI	**7,787**	13,055
Derivative financial assets	**2,368**	429
Other assets	**334**	137
Due to banks and other financial institutions	**5,466**	9,651
Placements from banks and other financial institutions	**1,029**	10,245
Derivative financial liabilities	**212**	543
Due to customers	**10,083**	3,544
Debt securities issued	**52**	51
Other liabilities	**33**	36
Sale of financial investments at FVPL to subsidiaries	**75**	10,327
Sale of financial investments at FVOCI to subsidiaries	**–**	28,312

	Six months ended 30 June	
The Bank	**2020**	2019
Interest income	**1,117**	1,202
Interest expense	**199**	232
Fee and commission income	**696**	489
Fee and commission expense	**95**	15
Other operating income	**284**	281
Other operating expense	**82**	109
Net (losses)/gains arising from trading activities	**(189)**	–

(All amounts expressed in millions of RMB unless otherwise stated)

44 RELATED PARTY TRANSACTIONS *(Continued)*

(e) Transactions with subsidiaries *(Continued)*

The interest rates of the transactions between the Bank and its subsidiaries are summarised below:

The Bank	**Six months ended 30 June**	
	2020	2019
	%	%
Due from banks and other financial institutions	**0.01~3.60**	0.01~4.00
Placements with banks and other financial institutions	**0.01~3.91**	0.02~5.40
Financial investments at FVPL	**1.97~4.38**	Not applicable
Financial investments at amortised cost	**1.29~4.70**	3.05~4.70
Financial investments at FVOCI	**1.14~4.38**	Not applicable
Loans and advances to customers	**1.61~3.97**	2.18~4.30
Due to banks and other financial institutions	**0.01~3.60**	0.01~4.18
Placements from banks and other financial institutions	**0.01~4.24**	(0.30)~3.01
Due to customers	**0.70~4.18**	0.01~2.39
Debt securities issued	**5.75**	5.75

(f) Transactions with directors and senior management

Transactions with directors, supervisors, senior management, their close relatives and entities that are controlled, jointly controlled, or significantly influenced by either such directors, supervisors, and senior management or their close relatives mainly include loans and deposits and are carried out under normal commercial terms and paid at market rates.

Details of transaction volumes and outstanding balances are summarised below:

	As at 30 June 2020	As at 31 December 2019
Due to customers	**3**	18
Loans and advances to customers	**2**	3

Compensations of directors and senior management are disclosed in Note 13.

(g) Transactions with associates and joint ventures

Transactions between the Group and its associates and joint ventures are carried out under normal commercial terms and paid at market rates.

Details of transaction volumes and outstanding balances are summarised below:

	As at 30 June 2020	As at 31 December 2019
On-balance sheet items		
Due to banks and other financial institutions	**300**	–
Financial assets purchased under resale agreements	**200**	–
Loans and advances to customers	**4,015**	3,371
Derivative financial assets	**20**	4
Placements with banks and other financial institutions	**61**	52
Derivative financial liabilities	**20**	3
Due to customers	**3**	3
Off-balance sheet items		
Notional principal of derivative financial instruments	**3,253**	5,193

For the six months ended 30 June 2020
(All amounts expressed in millions of RMB unless otherwise stated)

44 RELATED PARTY TRANSACTIONS *(Continued)*

(g) Transactions with associates and joint ventures *(Continued)*

	Six months ended 30 June	
	2020	2019
Net losses from trading activities	**(4)**	–
Interest income	**85**	34
Interest expense	**–**	2

The interest rates of the transactions between the Group and its associates and joint ventures are summarised below:

	Six months ended 30 June	
	2020	2019
	%	%
Due from banks and other financial institutions	**0.30~0.35**	3.88
Placements with banks and other financial institutions	**1.81**	0.75~2.65
Financial assets purchased under resale agreements	**1.81**	1.38~2.50
Loans and advances to customers	**3.48~4.90**	3.92~4.90
Due to banks and other financial institutions	**0.01~0.35**	0.01~5.50
Due to customers	**0.30~1.35**	0.30~1.35

(h) Transactions with other related parties

Details of transaction volumes and outstanding balances are summarised below:

	As at 30 June 2020	As at 31 December 2019
Loans and advances to customers	**1,184**	2,354
Accrued interest	**1**	1
Financial investments at amortised cost	**200**	200
Accrued interest	**3**	4
Due to banks and other financial institutions	**1,622**	1,851
Accrued interest	**11**	20
Due to customers	**54,412**	46,865
Accrued interest	**2,261**	1,253

	Six months ended 30 June	
	2020	2019
Interest income	**22**	51
Interest expense	**1,093**	712

The interest rates of the transactions between the Group and other related parties are summarised below:

	Six months ended 30 June	
	2020	2019
	%	%
Loans and advances to customers	**0.30~5.06**	3.92~6.31
Deposits from banks and other financial institutions	**0.30~5.40**	0.35~5.80
Financial investments at amortised cost	**3.19~3.78**	3.19~3.78
Due to customers	**0.30~4.18**	1.10~4.18

45 SEGMENTAL ANALYSIS

The Group's senior management reviews the Group's operation by the particular economic areas in which the Group's branches and subsidiaries provide products or services. The Group's operating segments are decided based upon location of the assets, as the Group's branches and subsidiaries mainly serve local customers.

The reportable operating segments derive their revenue primarily from the commercial banking services provided to customers and investing activities, including deposits/loans, bills, trade finance, money market placements and takings and securities investments. The operating segments are:

(1) Northern China – including Beijing, Tianjin, Hebei Province, Shanxi Province and Inner Mongolia Autonomous Region;

(2) North Eastern China – including Liaoning Province, Jilin Province and Heilongjiang Province;

(3) Eastern China – including Shanghai (excluding Head Office), Jiangsu Province, Zhejiang Province, Anhui Province, Fujian Province, Jiangxi Province and Shandong Province;

(4) Central and Southern China – including Henan Province, Hunan Province, Hubei Province, Guangdong Province, Hainan Province and Guangxi Zhuang Autonomous Region;

(5) Western China – including Chongqing, Sichuan Province, Guizhou Province, Yunnan Province, Shaanxi Province, Gansu Province, Qinghai Province, Ningxia Autonomous Region and Xinjiang Uyghur Autonomous Region;

(6) Head Office;

(7) Overseas – including overseas subsidiaries and the following branches: Hong Kong, New York, Tokyo, Singapore, Seoul, Frankfurt, Macau, Ho Chi Minh City, San Francisco, Sydney, Taipei, London, Luxembourg, Brisbane, Paris, Rome, Brazil, Toronto, Melbourne, Prague and other overseas affiliates.

There were no changes in the reportable segments during the period.

The revenue from external parties reported to the senior management is measured in a manner consistent with that in the consolidated statement of profit or loss and other comprehensive income.

As the Group's major revenue is derived by interest and the senior management relies primarily on net interest income to assess the performance of the segment, the total interest income and expenses for all reportable segments will be presented on a net basis.

The basis on which the Group's senior management reviews the segment performance is profit before tax. Funds are ordinarily allocated between segments, resulting in funding cost transfers disclosed in inter-segment net interest income. Interest charged for these funds is based on the Group's cost of capital. There are no other material items of income or expenses between the segments.

For the six months ended 30 June 2020
(All amounts expressed in millions of RMB unless otherwise stated)

45 SEGMENTAL ANALYSIS *(Continued)*

Operating segment information

	Six months ended 30 June 2020							
	Northern China	North Eastern China	Eastern China	Central and Southern China	Western China	Overseas	Head Office	Total
External interest income	16,100	4,283	44,749	28,168	12,790	14,702	65,437	186,229
External interest expense	(15,519)	(4,581)	(30,523)	(18,124)	(7,373)	(10,494)	(25,766)	(112,380)
Inter-segment net interest income/(expense)	8,585	2,558	12,525	6,927	1,623	(93)	(32,125)	–
Net interest income	9,166	2,260	26,751	16,971	7,040	4,115	7,546	73,849
Fee and commission income	2,226	562	7,431	3,712	1,417	1,771	9,096	26,215
Fee and commission expense	(17)	(9)	(1,066)	(33)	(7)	(141)	(665)	(1,938)
Net fee and commission income	2,209	553	6,365	3,679	1,410	1,630	8,431	24,277
Net gains arising from trading activities	149	17	1,198	293	46	(110)	5,760	7,353
Net gains/(losses) arising from financial investments	–	–	512	–	–	1,017	(24)	1,505
Insurance business income	–	–	10,898	–	–	38	–	10,936
Share of profits of associates and joint ventures	–	–	–	–	–	2	83	85
Other operating income	351	85	7,258	323	251	596	90	8,954
Total operating income – net	11,875	2,915	52,982	21,266	8,747	7,288	21,886	126,959
Credit impairment losses	(1,678)	(1,139)	(12,412)	(4,833)	(55)	(568)	(12,648)	(33,333)
Other assets impairment losses	–	–	(163)	–	–	4	–	(159)
Insurance business expense	–	–	(11,006)	–	–	(16)	–	(11,022)
Other operating expense	(3,890)	(1,872)	(14,935)	(6,676)	(2,911)	(2,358)	(9,845)	(42,487)
Profit before tax	6,307	(96)	14,466	9,757	5,781	4,350	(607)	39,958
Income tax								(2,961)
Net profit for the period								36,997
Depreciation and amortisation	(508)	(210)	(1,142)	(777)	(429)	(302)	(540)	(3,908)
Capital expenditure	(117)	(42)	(13,722)	(196)	(103)	(60)	(221)	(14,461)

(All amounts expressed in millions of RMB unless otherwise stated)

45 SEGMENTAL ANALYSIS *(Continued)*

Operating segment information *(Continued)*

	Six months ended 30 June 2019							
	Northern China	North Eastern China	Eastern China	Central and Southern China	Western China	Overseas	Head Office	Total
External interest income	14,691	4,528	42,140	24,189	11,763	16,709	67,842	181,862
External interest expense	(14,898)	(4,397)	(29,413)	(16,677)	(7,619)	(12,124)	(26,672)	(111,800)
Inter-segment net interest income/(expense)	8,823	2,406	11,971	8,305	3,020	(58)	(34,467)	–
Net interest income	8,616	2,537	24,698	15,817	7,164	4,527	6,703	70,062
Fee and commission income	1,993	573	6,636	3,866	1,413	1,691	8,898	25,070
Fee and commission expense	(19)	(8)	(726)	(45)	(12)	(152)	(986)	(1,948)
Net fee and commission income	1,974	565	5,910	3,821	1,401	1,539	7,912	23,122
Net gains arising from trading activities	182	23	1,126	282	62	15	6,599	8,289
Net gains arising from financial investments	–	–	40	–	–	259	29	328
Insurance business income	–	–	8,291	–	–	20	–	8,311
Share of profits of associates and joint ventures	–	–	–	–	–	99	193	292
Other operating income	391	82	5,951	263	289	862	72	7,910
Total operating income – net	11,163	3,207	46,016	20,183	8,916	7,321	21,508	118,314
Credit impairment losses	(809)	(2,254)	(7,400)	(2,086)	(1,288)	99	(7,806)	(21,544)
Other assets impairment losses	–	(1)	5	(10)	–	–	–	(6)
Insurance business expense	–	–	(7,872)	–	–	(6)	–	(7,878)
Other operating expense	(3,671)	(1,739)	(13,572)	(5,688)	(3,097)	(2,564)	(9,596)	(39,927)
Profit before tax	6,683	(787)	17,177	12,399	4,531	4,850	4,106	48,959
Income tax								(5,811)
Net profit for the period								43,148
Depreciation and amortisation	(539)	(212)	(1,151)	(789)	(438)	(285)	(620)	(4,034)
Capital expenditure	(47)	(27)	(18,859)	(152)	(74)	(73)	(193)	(19,425)

The comparative information was restated in accordance with the current rules since the income distribution rules among segments have been changed.

For the six months ended 30 June 2020
(All amounts expressed in millions of RMB unless otherwise stated)

45 SEGMENTAL ANALYSIS *(Continued)*

Operating segment information *(Continued)*

	As at 30 June 2020								
	Northern China	North Eastern China	Eastern China	Central and Southern China	Western China	Overseas	Head Office	Eliminations	Total
Segment assets	1,269,558	375,823	3,100,219	1,737,659	740,248	1,213,387	4,226,878	(2,019,885)	10,643,887
Including:									
Investments in associates and joint ventures	–	–	4	6	–	555	4,180	–	4,745
Unallocated assets									26,045
Total assets									10,669,932
Segment liabilities	(1,262,147)	(377,449)	(2,930,304)	(1,714,837)	(733,790)	(1,172,241)	(3,684,027)	2,019,885	(9,854,910)
Unallocated liabilities									(890)
Total liabilities									(9,855,800)

	As at 31 December 2019								
	Northern China	North Eastern China	Eastern China	Central and Southern China	Western China	Overseas	Head Office	Eliminations	Total
Segment assets	1,219,762	344,260	2,814,349	1,519,238	708,382	1,100,223	4,029,099	(1,853,778)	9,881,535
Including:									
Investments in associates and joint ventures	–	–	4	6	–	431	4,159	–	4,600
Unallocated assets									24,065
Total assets									9,905,600
Segment liabilities	(1,202,152)	(346,410)	(2,648,846)	(1,483,516)	(697,188)	(1,067,197)	(3,512,239)	1,853,778	(9,103,770)
Unallocated liabilities									(918)
Total liabilities									(9,104,688)

(All amounts expressed in millions of RMB unless otherwise stated)

45 SEGMENTAL ANALYSIS *(Continued)*

Business Information

The Group is engaged predominantly in banking and related financial activities. It comprises corporate banking, personal banking, treasury and other business. Corporate banking mainly comprises corporate loans, bills, trade finance, corporate deposits and remittance. Personal banking mainly comprises individual loans, individual deposits, credit cards and remittance. Treasury mainly comprises money market placements and takings, financial investment, and securities sold under repurchase agreements. The "Others Business" segment mainly comprises items which cannot be categorised in the above business segments.

The business information of the Group is summarised as follows:

	Six months ended 30 June 2020				
	Corporate Banking Business	Personal Banking Business	Treasury Business	Other Business	Total
External net interest income	28,622	23,634	21,564	29	73,849
Inter-segment net interest income/(expense)	9,284	9,132	(18,416)	–	–
Net interest income	37,906	32,766	3,148	29	73,849
Net fee and commission income	8,846	14,859	594	(22)	24,277
Net gains arising from trading activities	1,245	980	4,795	333	7,353
Net gains arising from financial investments	–	–	1,505	–	1,505
Share of profits of associates and joint ventures	–	–	–	85	85
Insurance business income	38	10,898	–	–	10,936
Other operating income	7,171	1,198	50	535	8,954
Total operating income – net	55,206	60,701	10,092	960	126,959
Credit impairment losses	(19,688)	(13,683)	38	–	(33,333)
Other assets impairment losses	(164)	–	–	5	(159)
Insurance business expense	(16)	(11,006)	–	–	(11,022)
Other operating expense					
– Depreciation and amortisation	(1,430)	(2,250)	(176)	(52)	(3,908)
– Others	(16,788)	(19,961)	(1,367)	(463)	(38,579)
Profit before tax	17,120	13,801	8,587	450	39,958
Income tax					(2,961)
Net profit for the period					36,997
Depreciation and amortisation	(1,430)	(2,250)	(176)	(52)	(3,908)
Capital expenditure	(5,289)	(8,327)	(651)	(194)	(14,461)

For the six months ended 30 June 2020
(All amounts expressed in millions of RMB unless otherwise stated)

45 SEGMENTAL ANALYSIS *(Continued)*

Business Information *(Continued)*

	Six months ended 30 June 2019				
	Corporate Banking Business	Personal Banking Business	Treasury Business	Other Business	Total
External net interest income	25,885	22,917	21,233	27	70,062
Inter-segment net interest income/(expense)	10,487	7,862	(18,349)	–	–
Net interest income	36,372	30,779	2,884	27	70,062
Net fee and commission income	9,553	13,460	59	50	23,122
Net gains arising from trading activities	1,122	500	6,560	107	8,289
Net gains arising from financial investments	–	–	328	–	328
Share of profits of associates and joint ventures	–	–	–	292	292
Insurance business income	(12)	8,323	–	–	8,311
Other operating income	6,260	1,238	–	412	7,910
Total operating income – net	53,295	54,300	9,831	888	118,314
Credit impairment losses	(12,450)	(9,333)	263	(24)	(21,544)
Other assets impairment losses	–	–	–	(6)	(6)
Insurance business expense	(6)	(7,872)	–	–	(7,878)
Other operating expense					
– Depreciation and amortisation	(1,252)	(2,286)	452	44	(4,034)
– Others	(15,340)	(18,895)	1,027	631	(35,893)
Profit before tax	24,247	15,914	8,615	183	48,959
Income tax					(5,811)
Net profit for the period					43,148
Depreciation and amortisation	(1,252)	(2,286)	(452)	(44)	(4,034)
Capital expenditure	(6,028)	(11,009)	(2,177)	(211)	(19,425)

The comparative information was restated in accordance with the current categorisation since the business segment categorisation of some subsidiaries has been changed.

	As at 30 June 2020				
	Corporate Banking Business	**Personal Banking Business**	**Treasury Business**	**Other Business**	**Total**
Segment assets	**4,054,022**	**1,992,261**	**4,572,221**	**25,383**	**10,643,887**
Including:					
Investments in associates and joint ventures	**–**	**–**	**–**	**4,745**	**4,745**
Unallocated assets					**26,045**
Total assets					**10,669,932**
Segment liabilities	**(4,791,464)**	**(2,244,351)**	**(2,779,256)**	**(39,839)**	**(9,854,910)**
Unallocated liabilities					**(890)**
Total liabilities					**(9,855,800)**

(All amounts expressed in millions of RMB unless otherwise stated)

45 SEGMENTAL ANALYSIS *(Continued)*

Business Information *(Continued)*

	As at 31 December 2019				
	Corporate Banking Business	Personal Banking Business	Treasury Business	Other Business	Total
Segment assets	3,621,399	1,906,529	4,327,275	26,332	9,881,535
Including:					
Investments in associates and joint ventures	–	–	–	4,600	4,600
Unallocated assets					24,065
Total assets					9,905,600
Segment liabilities	(4,530,252)	(2,061,579)	(2,472,375)	(39,564)	(9,103,770)
Unallocated liabilities					(918)
Total liabilities					(9,104,688)

There were no significant transactions with a single external customer that the Group mainly relied on.

46 NON-ADJUSTING EVENTS AFTER REPORTING PERIOD

Pursuant to the terms and conditions of the offshore preference shares, the Bank has redeemed the USD2.45 billion offshore preference shares issued by the Bank on 29 July 2015 in whole on 29 July 2020. The redemption price of each offshore preference share is equal to the aggregate of the issue price (that is, amount of liquidation preference) of each offshore preference share plus any declared but unpaid dividends accrued in respect of the period from (and including) the immediately preceding dividend payment date to (but excluding) the redemption date. The aggregate price of the redemption equals to the sum of USD2.45billion as the liquidation preference and the dividends of USD0.1225 billion, a total of USD2.5725 billion.

In July 2020, the Bank has obtained the Approval from China Banking and Insurance Regulatory Commission on the Capital Increase to Bank of Communications (Hong Kong) Limited (Yin Bao Jian Fu [2020] No. 434), in which a total capital increase of no more than HKD20 billion was approved by China Banking and Insurance Regulatory Commission. According to the above approval, the Bank will complete the capital increase to Bank of Communications (Hong Kong) Limited in a timely manner. Upon completion of the capital increase, Bank of Communications (Hong Kong) Limited will remain as a wholly-owned subsidiary of the Bank.

On 25 August 2020, BOCOM Financial Technology Company Limited, a subsidiary of the Bank was incorporated in Lin-Gang Special Area in China (Shanghai) Pilot Free Trade Zone. The registered capital of BOCOM Financial Technology Company Limited is RMB600 million, and its principal business includes software research and development, technical consulting and innovation, information system integration services and so on by means of fintech.

Unaudited Interim Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

(All amounts expressed in millions of RMB unless otherwise stated)

	Three months ended 30 September		Nine months ended 30 September	
	2020	2019	**2020**	2019
Interest income	**91,772**	92,839	**278,001**	274,701
Interest expense	**(51,607)**	(56,574)	**(163,987)**	(168,374)
Net interest income	**40,165**	36,265	**114,014**	106,327
Fee and commission income	**11,807**	12,375	**38,022**	37,445
Fee and commission expense	**(1,101)**	(1,039)	**(3,039)**	(2,987)
Net fee and commission income	**10,706**	11,336	**34,983**	34,458
Net gains arising from trading activities	**1,405**	4,493	**8,758**	12,782
Net gains arising from financial investments	**637**	664	**2,142**	992
Including: Net gains on derecognition of financial assets measured at amortised cost	**3**	16	**71**	103
Share of profits of associates and joint venture	**58**	59	**143**	351
Insurance business income	**1,586**	1,273	**12,522**	9,584
Other operating income	**4,119**	4,109	**13,073**	12,019
Credit impairment losses	**(18,581)**	(15,401)	**(51,914)**	(36,945)
Other assets impairment losses	**3**	–	**(156)**	(6)
Insurance business expense	**(1,879)**	(1,489)	**(12,901)**	(9,367)
Other operating expenses	**(20,662)**	(21,282)	**(63,149)**	(61,209)
Profit before tax	**17,557**	20,027	**57,515**	68,986
Income tax	**(1,083)**	(2,449)	**(4,044)**	(8,260)
Net profit for the period	**16,474**	17,578	**53,471**	60,726

(All amounts expressed in millions of RMB unless otherwise stated)

	Three months ended 30 September		**Nine months ended 30 September**	
	2020	2019	**2020**	2019
Other comprehensive income, net of tax				
Items that may be reclassified subsequently to profit or loss:				
Loans and advances to customers at fair value through other comprehensive income				
Amount recognised directly in equity	**(102)**	238	**147**	(431)
Amount reclassified to profit or loss	**51**	(98)	**(147)**	(330)
Debt investments at fair value through other comprehensive income				
Amount recognised directly in equity	**(1,951)**	522	**(2,078)**	2,263
Amount reclassified to profit or loss	**(474)**	(471)	**(1,536)**	(652)
Effective portion of gains or losses on hedging instruments in cash flow hedges				
Changes in fair value recorded in equity	**197**	(80)	**(462)**	30
Changes in fair value reclassified from equity to profit or loss	**(62)**	90	**(58)**	(81)
Translation difference on foreign operations	**(2,521)**	1,413	**(1,428)**	1,554
Others	**(21)**	1	**7**	17
Subtotal	**(4,883)**	1,615	**(5,555)**	2,370

(All amounts expressed in millions of RMB unless otherwise stated)

	Three months ended 30 September		Nine months ended 30 September	
	2020	2019	**2020**	2019
Items that will not be reclassified subsequently to profit or loss:				
Changes in fair value of equity investments designated at fair value through other comprehensive income	**(3)**	(90)	**(374)**	9
Actuarial losses on pension benefits	**(154)**	(15)	**(188)**	(12)
Changes in fair value attributable to changes in the credit risk of financial liability designated at fair value through profit or loss	**(11)**	4	**33**	78
Others	**(6)**	–	**20**	–
Subtotal	**(174)**	(101)	**(509)**	75
Other comprehensive income, net of tax	**(5,057)**	1,514	**(6,064)**	2,445
Total Comprehensive income for the period	**11,417**	19,092	**47,407**	63,171
Net profit attributable to:				
Shareholders of the Bank	**16,207**	17,398	**52,712**	60,147
Non-controlling interests	**267**	180	**759**	579
	16,474	17,578	**53,471**	60,726
Total comprehensive income attributable to:				
Shareholders of the Bank	**11,375**	18,853	**46,778**	62,504
Non-controlling interests	**42**	239	**629**	667
	11,417	19,092	**47,407**	63,171
Basic and diluted earnings per share for profit attributable to the shareholders of the Bank (in RMB yuan)	**0.19**	0.23	**0.65**	0.77

Unaudited Interim Condensed Consolidated Statement of Financial Position

(All amounts expressed in millions of RMB unless otherwise stated)

	As at 30 September 2020	As at 31 December 2019
ASSETS		
Cash and balances with central banks	**796,805**	760,185
Due from and placements with banks and other financial institutions	**701,096**	648,488
Derivative financial assets	**39,745**	20,937
Loans and advances to customers	**5,687,511**	5,183,653
Financial investments at fair value through profit or loss	**500,261**	406,498
Financial investments at amortised cost	**1,977,302**	1,929,689
Financial investments at fair value through other comprehensive income	**803,042**	669,656
Investments in associates and joint ventures	**4,718**	4,600
Property and equipment	**174,097**	171,179
Deferred income tax assets	**26,514**	24,065
Other assets	**84,480**	86,650
Total assets	**10,795,571**	9,905,600
LIABILITIES		
Due to and placements from banks and other financial institutions	**1,787,831**	1,904,082
Financial liabilities at fair value through profit or loss	**23,483**	26,980
Derivative financial liabilities	**45,615**	26,424
Due to customers	**6,615,067**	6,072,908
Certificates of deposits issued	**765,313**	498,991
Current income tax liabilities	**1,685**	7,086
Deferred income tax liabilities	**952**	918
Debt securities issued	**518,409**	403,918
Other liabilities	**200,539**	163,381
Total liabilities	**9,958,894**	9,104,688

(All amounts expressed in millions of RMB unless otherwise stated)

	As at 30 September 2020	As at 31 December 2019
EQUITY		
Share capital	**74,263**	74,263
Other equity instruments	**114,944**	99,870
Including: Preference shares	**44,952**	59,876
Perpetual bonds	**69,992**	39,994
Capital surplus	**111,462**	113,663
Other reserves	**334,357**	328,310
Retained earnings	**190,085**	177,141
Equity attributable to shareholders of the Bank	**825,111**	793,247
Equity attributable to non-controlling interests of ordinary shares	**8,164**	7,665
Equity attributable to non-controlling interests of other equity instruments	**3,402**	–
Non-controlling interests	**11,566**	7,665
Total equity	**836,677**	800,912
Total equity and liabilities	**10,795,571**	9,905,600

Unaudited Interim Condensed Consolidated Statement of Cash Flows

(All amounts expressed in millions of RMB unless otherwise stated)

	Nine months ended 30 September **2020**	2019
Cash flows from operating activities:		
Net profit before tax:	**57,515**	68,986
Adjustments for:		
Provision for impairment losses	**51,914**	36,945
Provision for other assets impairment losses	**156**	6
Provision for/(Reversal of) insurance contracts reserve	**10,652**	7,172
Depreciation and amortisation	**10,990**	10,675
(Reversal of)/Provision for outstanding litigation and unsettled obligation	**(34)**	84
Net gains on the disposal of property, equipment and other assets	**(230)**	(141)
Interest income from financial investments	**(68,592)**	(65,931)
Discount interest of impairment allowances unwound during the period	**(1,140)**	(1,075)
Fair value (gain)/losses	**(1,539)**	1,287
Share of profit of associates and joint venture	**(143)**	(351)
Net gains arising from financial investments	**(2,142)**	(992)
Interest expense on debt securities issued	**10,567**	8,655
Operating cash flows before movements in operating assets and liabilities	**67,974**	65,320

(All amounts expressed in millions of RMB unless otherwise stated)

	Nine months ended 30 September	
	2020	2019
Net decrease in balances with central banks	**37,044**	42,559
Net decrease in due from and placements with banks and other financial institutions	**22,693**	103,169
Net increase in financial assets at fair value through profit or loss	**(95,428)**	(21,680)
Net increase in loans and advances to customers	**(551,983)**	(381,364)
Net increase in other assets	**(7,995)**	(5,206)
Net increase in due to and placements from banks and other financial institutions	**(114,014)**	(122,424)
Net increase/(decrease) in financial liabilities at fair value through profit or loss	**2,426**	(3,506)
Net increase in due to customers and certificates of deposit issued	**799,120**	393,236
Net increase in other liabilities	**34,956**	123
Net increase in value-added tax and surcharge payable	**235**	497
Income tax paid	**(10,835)**	(6,858)
Net cash flows generated from operating activities	**184,193**	63,866
Cash flows from investing activities:		
Purchase of financial investments	**(793,018)**	(592,312)
Disposal or redemption of financial investments	**607,780**	441,962
Dividends received	**1,390**	421
Interest received from financial investments	**72,023**	68,146
Acquisition of intangible assets and other assets	**(940)**	(823)
Disposal of intangible assets and other assets	**245**	61
Purchase and construction of property and equipment	**(19,231)**	(25,041)
Disposal of property and equipment	**7,880**	1,797
Net cash flows used in investing activities	**(123,871)**	(105,789)

(All amounts expressed in millions of RMB unless otherwise stated)

	Nine months ended 30 September	
	2020	2019
Cash flows from financing activities:		
Cash received from issuing other equity instruments	**33,456**	39,994
Cash received on debt securities issued	**136,513**	35,510
Repayment of principals and interests of lease liabilities	**(1,792)**	(1,989)
Cash payments for distribution of dividends	**(27,785)**	(25,026)
Repayment of principals of debt securities issued	**(25,286)**	(10,408)
Cash payments for interest on debt securities	**(5,772)**	(6,397)
Cash payments for redeeming other equity instruments	**(17,125)**	–
Dividends paid to non-controlling interests	**(146)**	(57)
Net cash flows generated from financing activities	**92,063**	31,627
Effect of exchange rate changes on cash and cash equivalents	**(1,638)**	2,966
Net increase/(decrease) in cash and cash equivalents	**150,747**	(7,330)
Cash and cash equivalents at the beginning of the period	**167,735**	243,492
Cash and cash equivalents at the end of the period	**318,482**	236,162
Net cash flows from operating activities include:		
Interest received	**210,701**	212,387
Interest paid	**(150,449)**	(165,561)

ISSUER

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Appendix 2
Supplemental Offering Circular dated 6 December 2021

IMPORTANT NOTICE

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

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

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES, 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.

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Confirmation of your Representation: In order to be eligible to view this Supplemental Offering Circular or make an investment decision with respect to the securities, investors must be purchasing the securities outside the United States in an offshore transaction in reliance on Regulation S under the Securities Act. This Supplemental Offering Circular is being sent to you at your request and by accepting the e-mail and accessing the attached Supplemental Offering Circular, you shall be deemed to represent to the Bank of Communications Co., Ltd. Hong Kong Branch (the "**Arranger and Dealer**") and Bank of Communications Co., Ltd. Hong Kong Branch or any other branch of Bank of Communications Co., Ltd. located outside the PRC that (i) accedes to the Programme (as defined below) in accordance with the relevant terms of the Dealer Agreement (as defined in the Original Offering Circular) and (ii) is specified as an issuer in the applicable Pricing Supplement (each an "**Issuer**") (1) that you and any customers you represent are and that the electronic mail address that you provided and to which this electronic mail has been delivered is not located in the United States, its territories or possessions, and (2) that you consent to delivery of the attached Supplemental Offering Circular and any amendments or supplements thereto by electronic transmission.

You are reminded that this Supplemental Offering Circular has been delivered to you on the basis that you are a person into whose possession this Supplemental Offering Circular may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver or disclose the contents of this Supplemental Offering Circular to any other person. You should not reply by e-mail to this notice, and you may not purchase any securities by doing so. Any reply e-mail communications, including those you generate by using the "Reply" function on your e-mail software, will be ignored or rejected.

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

This Supplemental 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 Issuer accepts full responsibility for the accuracy of the information contained in this document and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement herein misleading. Investors are advised to read and understand the contents of the Supplemental Offering Circular before investing. If in doubt, investors should consult their advisers.

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

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BANK OF COMMUNICATIONS CO., LTD. HONG KONG BRANCH

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

U.S.$12,000,000,000

Medium Term Note Programme

This supplemental offering circular (the "**Supplemental Offering Circular**") has been prepared in connection with the U.S.$12,000,000,000 Medium Term Note Programme (the "**Programme**") of Bank of Communications Co., Ltd. Hong Kong Branch or any other branch of Bank of Communications Co., Ltd. (the "**Issuer**") as described by the offering circular dated 14 December 2020 (the "**Original Offering Circular**", and together with this Supplemental Offering Circular, the "**Offering Circular**"). This Supplemental Offering Circular is supplemental to, and should be read in conjunction with, the Original Offering Circular and any other supplements to the Original Offering Circular. To the extent there is any inconsistency between any statement in this Supplemental Offering Circular and any other statement in the Original Offering Circular, including the section entitled "Terms and Conditions of the Notes", the statement in this Supplemental Offering Circular shall prevail. Capitalised terms used but not defined in this Supplemental Offering Circular have the meanings given to them in the Original Offering Circular. The Notes may be issued on a continuing basis to one or more of the Dealers appointed under the Programme from time to time by the relevant Issuer (each a "**Dealer**" and together the "**Dealers**"), which appointment may be for a specific issue or on an ongoing basis.

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

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

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

Prospective investors should have regard to the factors described under the section headed "Risk Factors" in the Original Offering Circular and this Supplemental Offering Circular in connection with an investment in the Notes.

The Notes have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States, and the Notes may include Bearer Notes that are subject to U.S. tax law requirements. Subject to certain exceptions, the Notes may not be offered, sold, or, in the case of Bearer Notes, delivered within the United States or, in the case of Notes being offered or sold in reliance on Category 2 of Regulation S of the Securities Act, to, or for the account or the benefit of U.S. persons unless an exemption from the registration requirement of the Securities Act is available and in accordance with all applicable securities laws of any state of the United States and any other jurisdiction. Registered Notes are subject to certain restrictions on transfer, see "*Subscription and Sale*" of the Original Offering Circular and this Supplemental Offering Circular.

Arranger and Dealer for the Programme

Bank of Communications Co., Ltd. Hong Kong Branch

Supplemental Offering Circular dated 6 December 2021

A44659435

IMPORTANT NOTICE

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 ("**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); (ii) a customer within the meaning of Directive (EU) 2016/97 (the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the "**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPS Regulation.

IMPORTANT - 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 United Kingdom ("**UK**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the "**EUWA**"); (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 (the "**UK Prospectus Regulation**").

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.

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

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

Singapore SFA Product Classification: In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the "**SFA**") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**"), unless otherwise specified before an offer of Notes, the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309(A)(1) of the SFA), that the Notes are 'prescribed capital markets products' (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

This Supplemental 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 Issuer accepts full responsibility for the accuracy of the information contained in this Supplemental Offering Circular and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement herein misleading. Investors are advised to read and understand the contents of this Supplemental Offering Circular before investing. If in doubt, investors should consult their advisers.

Listing of the Programme on the Hong Kong Stock Exchange is not to be taken as an indication of the merits of the Issuer or the Programme. In making an investment decision, investors must rely on their own examination of the Issuer and the terms of the offering, including the merits and risks involved. See "Risk Factors" in the Original Offering Circular for a discussion of certain factors to be considered in connection with an investment in the Notes. No representation or warranty, express or implied, is made by Bank of Communications Co., Ltd. Hong Kong Branch (the "**Arranger and Dealer**"), any fiscal agent, paying agents or any of their respective officers, employees, affiliates, advisors or agents as to the accuracy, completeness or sufficiency of the information contained in this Supplemental Offering Circular, and nothing contained in this Supplemental Offering Circular is, or should be, relied upon as a promise or representation by the Arranger and Dealer, fiscal agent, paying agent or their officers, employees, affiliates, advisors or agents. The Arranger and Dealer, the fiscal agent, the paying agents and their respective officers, employees, affiliates, advisors and agents have not independently verified the information contained herein (financial, legal or otherwise) and, to the fullest extent permitted by law, none of the Arranger and Dealer, the fiscal agent, the paying agents or their respective officers, employees, affiliates, advisors or agents accepts any responsibility for the contents of this Supplemental Offering Circular or for any other statement, made or purported to be made by the Arranger and Dealer or on their behalf in connection with the Issuer, the Bank, the Group, the Programme or the issue and offering of the Notes under the Programme. The Arranger and Dealer, the fiscal agent, the paying agents and their respective officers, employees, affiliates, advisors or agents accordingly disclaim all and any liability whether arising in tort or contract or otherwise (save as referred to above) which might otherwise have in respect of this Supplemental Offering Circular or any such statement.

No person has been authorised to give any information or to make any representation other than those contained in this Supplemental Offering Circular in connection with the issue or sale of the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the relevant Issuer or the Arranger and Dealer or the Agents. Neither this Supplemental Offering Circular nor any other information supplied in connection with the Programme or any Notes should be considered as a recommendation by the relevant Issuer, the Arranger and Dealer or the Agents that any recipient of this Supplemental Offering Circular or any other information supplied in connection with the Programme or any Notes should purchase any Notes. This Supplemental Offering Circular does not take into account the objectives, financial situation or needs of any potential investor. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the relevant Issuer. Neither this Supplemental Offering Circular nor any other information supplied in connection with the Programme or the issue of any Notes constitutes an offer or invitation by or on behalf of any Issuer, the Arranger and Dealer or the Agents to any person to subscribe for or to purchase any Notes.

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

The distribution of this Supplemental Offering Circular and the offering or sale of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Supplemental Offering Circular comes are required by the Issuers, the Arranger and Dealer to inform themselves about and to observe any such restriction. The Notes are being offered and sold outside the United States in reliance on Regulation S. For a description of these and certain further restrictions on offers, sales and transfers of Notes and distribution of the Offering Circular, see “Subscription and Sale” of the Original Offering Circular and this Supplemental Offering Circular.

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

This Supplemental Offering Circular does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. None of the Issuers, the Arranger and Dealer or the Agents makes any representation to any investor in the Notes regarding the legality of its investment under any applicable law. The distribution of this Supplemental Offering Circular and the offer or sale of Notes may be restricted by law in certain jurisdictions.

None of the Issuers, the Arranger and Dealer or the Agents represents that this Supplemental Offering Circular may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assumes any responsibility for facilitating any such distribution or offering. In particular, unless specifically indicated to the contrary in the applicable Pricing Supplement, no action has been taken by the relevant Issuer, the Arranger and Dealer or the Agent which is intended to permit a public offering of any Notes or distribution of this Supplemental Offering Circular in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Supplemental Offering Circular nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Supplemental Offering Circular or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Supplemental Offering Circular and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Supplemental Offering Circular and the offer or sale of Notes in the United States, the European Economic Area, the United Kingdom, Hong Kong, Singapore, the PRC, Taiwan and Japan. See "Subscription and Sale" of the Original Offering Circular and this Supplemental Offering Circular.

To the fullest extent permitted by law, none of the Arranger and Dealer or the Agents accept any responsibility for the contents of this Supplemental Offering Circular or for any other statement, made or purported to be made by the Arranger and Dealer or any Agent or on its behalf in connection with the relevant Issuer, the Bank, the Group or the issue and offering of the Notes. The Arranger and 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 Supplemental Offering Circular or any such statement. Neither this Supplemental Offering Circular nor any financial statements of the relevant Issuer or the Group are intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the relevant Issuer, the Arranger and Dealer or the Agents that any recipient of this Supplemental Offering Circular or any financial statements of the relevant Issuer or the Group should purchase the Notes. Each potential investor of Notes should determine for itself the relevance of the information contained in this Supplemental Offering Circular and its purchase of Notes should be based upon such investigation as it deems necessary. None of the Arranger and Dealer or the Agents undertakes to review the financial condition or affairs of any of the Issuers or the Group during the life of the arrangements contemplated by this Supplemental Offering Circular nor to advise any investor or potential investor in the Notes of any information coming to the attention of any of the Arranger and Dealer or the Agents.

From time to time, in the ordinary course of business, certain of the Dealers and their affiliates have provided advisory and investment banking services, and entered into other commercial transactions with the Issuers, the Group and their respective affiliates, including commercial banking services, for which customary compensation has been received. It is expected that the Dealers and their affiliates will continue to provide such services to, and enter into such transactions, with the Issuers, the Group and their respective affiliates in the future.

The Dealers or certain of their respective affiliates may purchase the Notes and be allocated Notes for asset management and/or proprietary purposes and not with a view to distribution.

In making an investment decision, each potential investor must rely on its own examination of the relevant Issuer and the terms of the Notes being offered, including the merits and risks involved. The relevant Issuer does not and the Arranger and Dealer and the Agents do not make any representation regarding the legality of investment under any applicable laws.

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

In connection with any Tranche of Notes, one or more of the Dealers (or persons acting on their behalf) may act as the stabilisation manager(s) (the "Stabilisation Manager(s)"). The identity of the Stabilisation Manager(s) (if any) will be disclosed in the relevant Pricing Supplement. In connection with the issue of any Tranche of Notes, one or more of the Dealers named as Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation Manager) in the applicable Pricing Supplement may, to the extent permitted by applicable laws and directives, over-allot Notes or effect transactions with a view to supporting the 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 regulations.

Presentation of financial information

Certain financial information in this Supplemental Offering Circular has been derived from the audited consolidated financial statements of the Bank as at and for the year ended 31 December 2019 (the "**2019 Historical Financial Statements**"), which were published on 21 April 2020, on the website of the Hong Kong Stock Exchange, and the audited consolidated financial statements of the Bank as at and for the year ended 31 December 2020 (the "**2020 Historical Financial Statements**"), which were published on 22 April 2021, on the website of the Hong Kong Stock Exchange. The 2019 Historical Financial Statements and the 2020 Historical Financial Statements are incorporated by reference in the Offering Circular. The 2019 Historical Financial Statements and the 2020 Historical Financial Statements were prepared and presented in accordance with the IFRS and have been audited by PricewaterhouseCoopers, Certificated Public Accountant, in accordance with International Standards on Auditing ("**ISA**").

Certain financial information in this Supplemental Offering Circular has been derived from the unaudited consolidated interim financial statements as at and for the six months ended 30 June 2021 (the "**2021 Interim Financial Information**") of the Group, which were published on 10 September 2021, respectively, on the website of the Hong Kong Stock Exchange. Furthermore, certain financial information in this Supplemental Offering Circular has been derived from the unaudited consolidated interim financial statements as at and for the nine months ended 30 September 2021 (the "**2021 Third Quarter Financial Information**") of the Group, which were published on 29 October 2021, respectively, on the website of the Hong Kong Stock Exchange. The 2021 Interim Financial Information and the 2021 Third Quarter Financial Information are incorporated by reference in the Offering Circular. The 2021 Interim Financial Information and the 2021 Third Quarter Financial Information have not been audited by PricewaterhouseCoopers. The 2021 Interim Financial Information has been reviewed in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". Consequently, the 2021 Interim Financial Information and the 2021 Third Quarter Financial Information should not be relied upon by you to provide the same quality of information associated with information that has been subject to an audit, as appropriate. You must exercise caution when using such data to evaluate the Bank's financial condition and results of operations. The 2021 Interim Financial Information and the 2021 Third Quarter Financial Information should not be taken as an indication of the expected financial condition and results of operations of the Bank as at and for the full financial year ending 31 December 2021.

Solely for the sake of convenience, this Supplemental Offering Circular contains translations of certain Renminbi amounts into US dollar amounts. Unless indicated otherwise, the translation of Renminbi amounts into US dollar amounts has been made at the rate of RMB6.4566 to U.S.$1.00, the noon buying rate as set forth in the H.10 statistical release of the Federal Reserve Bank of New York on 30 June 2021. These translations should not be construed as representations that the Renminbi amounts could actually be converted into any US dollar amounts at the rates indicated or at all.

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UPDATES TO THE ORIGINAL OFFERING CIRCULAR

Please note the following updates that should be read in conjunction with the Original Offering Circular. If the information in this section differs from the information in the Original Offering Circular, you should rely on the information in this section.

SUMMARY FINANCIAL INFORMATION

The section in the Original Offering Circular entitled "***SUMMARY FINANCIAL INFORMATION***" is deemed to be deleted in its entirety and replaced as follows:

The following tables set forth the summary consolidated financial information of the Bank as at and for the periods indicated.

The summary consolidated financial information as at and for the years ended 31 December 2018, 2019 and 2020 set forth below is derived from the Bank's published audited consolidated financial statements as at and for the years ended 31 December 2019 and 2020, which are prepared and presented in accordance with IFRS. Except for the translation amount shown in U.S.$, the summary consolidated financial information as at 30 June 2021 and for the six months ended 30 June 2020 and 2021 and the summary consolidated financial information as at 30 September 2021 and for the nine months ended 30 September 2020 and 2021 set forth below are derived from the Bank's unaudited consolidated interim financial statements as at and for the six months ended 30 June 2021 and the Bank's unaudited consolidated interim financial statements as at and for the nine months ended 30 September 2021 respectively, which are prepared and presented in accordance with IFRS. The Bank's unaudited consolidated interim financial statements as at and for the six months ended 30 June 2021 and the Bank's unaudited consolidated interim financial statements as at and for the nine months ended 30 September 2021 have not been audited by PricewaterhouseCoopers. The Bank's unaudited consolidated interim financial statements as at and for the six months ended 30 June 2021 has been reviewed in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". Such summary consolidated financial information should be read in conjunction with such published audited consolidated financial statements and the unaudited consolidated interim financial statements and the notes thereto. The Bank's published audited consolidated financial statements as at and for the years ended 31 December 2019 and 2020 have been audited by PricewaterhouseCoopers in accordance with IAS.

With effect from 1 January 2019, the Bank adopted IFRS 16 Leases ("IFRS 16") under which the Bank was required to adjust certain amounts recognised in the Bank's audited consolidated financial statements. Please refer to Note 2.1.2 of the Bank's consolidated financial statements for the year ended 31 December 2019 for the effects of the adoption of IFRS 16. The Bank adopted IFRS 16 from 1 January 2019 without restating the comparative figures of the prior period before 1 January 2019 as permitted under the specific transitional provisions in IFRS 16. The Bank's consolidated financial statements as of and for the year ended 31 December 2018 may not be directly comparable against the audited consolidated financial statements on or after 1 January 2019. Investors must therefore exercise caution when making comparisons of any financial figures on or after 1 January 2019 against the consolidated financial figures prior to 1 January 2019 and when evaluating the Bank's financial position and results of operations. The 2021 Interim Financial Information and the 2021 Third Quarter Financial Information should not be taken as an indication of the expected financial condition and results of operations of the Bank as at and for the full financial year ending 31 December 2021.

Consolidated Statement of Comprehensive Income

	Year ended 31 December			Six months ended 30 June		Nine months ended 30 September		
	2018	**2019**	**2020**	**2020**	**2021**	**2020**	**2021**	**2021**
	(RMB in million unless otherwise stated)			*(RMB in million unless otherwise stated)*		*(RMB in million unless otherwise stated)*		*(U.S.$ in million unless otherwise stated)*
	(audited)			*(unaudited)*		*(unaudited)*		
Interest income	348,864	367,453	369,101	186,229	183,952	278,001	279,879	43,348
Interest expense	(217,956)	(223,370)	(215,765)	(112,380)	(105,466)	(163,987)	(160,635)	(24,879)
Net interest income	130,908	144,083	153,336	73,849	78,486	114,014	119,244	18,469
Fee and commission income	44,673	47,669	49,298	26,215	27,299	38,022	39,574	6,129
Fee and commission expense	(3,436)	(4,044)	(4,212)	(1,938)	(2,333)	(3,039)	(3,425)	(530)
Net fee and commission income	41,237	43,625	45,086	24,277	24,966	34,983	36,149	5,599
Net gains arising from trading activities	17,099	15,936	13,844	7,353	10,169	8,758	17,286	2,677
Net gains arising from financial investments	290	313	1,177	1,505	772	2,142	1,030	160
Including: Net gains/(losses) on derecognition of financial assets measured at amortised cost	(132)	(281)	27	68	40	71	45	7
Insurance business income	7,481	11,687	15,170	10,936	11,022	12,522	13,306	2,061
Other operating income	15,813	16,799	17,889	8,954	8,522	13,073	13,025	2,017
Net operating income	213,055	232,857	246,724	126,959	134,051	185,635	200,210	31,009
Credit impairment losses	(43,454)	(51,954)	(62,059)	(33,333)	(33,082)	(51,914)	(52,428)	(8,120)
Other assets impairment losses	(60)	(270)	(484)	(159)	(418)	(156)	(418)	(65)
Insurance business expense	(6,722)	(11,432)	(15,729)	(11,022)	(10,925)	(12,901)	(13,607)	(2,107)
Other operating expense	(76,752)	(81,001)	(82,027)	(42,487)	(43,038)	(63,149)	(64,338)	(9,965)
Share of profits of associates and joint venture	227	414	222	85	114	143	170	26
Profit before tax	86,067	88,200	86,425	39,958	46,588	57,515	69,419	10,752
Income tax	(11,902)	(10,138)	(6,855)	(2,961)	(3,715)	(4,044)	(3,927)	(608)
Net profit for the period	74,165	78,062	79,570	36,997	42,873	53,471	65,492	10,144

	Year ended 31 December			Six months ended 30 June		Nine months ended 30 September		
	2018	2019	2020	2020	2021	2020	2021	2021
	(RMB in million unless otherwise stated)			*(RMB in million unless otherwise stated)*		*(RMB in million unless otherwise stated)*		*(U.S.$ in million unless otherwise stated)*
	(audited)			*(unaudited)*		*(unaudited)*		
Other comprehensive income								
Items that may be reclassified subsequently to profit or loss:								
Loans and advances to customers carried at FVOCI								
Amount recognised in equity	102	(335)	19	249	319	147	218	34
Amount reclassified to profit or loss	-	(378)	(183)	(198)	(144)	(147)	(295)	(46)
Debt instruments at fair value through other comprehensive income								
Amount recognised in equity	2,086	3,715	(920)	(127)	211	(2,078)	2,395	371
Amount reclassified to profit or loss	(171)	(395)	(825)	(1,062)	(192)	(1,536)	(278)	(43)
Effective portion of gains or losses on hedging instruments in a cash flow hedge								
Changes in fair value recorded in equity	110	(156)	(1,362)	(659)	972	(462)	952	147
Changes in fair value reclassified from equity to profit or loss	(93)	147	815	4	(740)	(58)	(640)	(99)
Others	18	18	(8)	28	5	7	4	1
Translation difference on foreign operations	1,998	1,141	(4,776)	1,093	(1,344)	(1,428)	(1,463)	(227)
Subtotal	4,050	3,757	(7,240)	(672)	(913)	(5,555)	893	138
Items that will not be reclassified subsequently to profit or loss:								
Changes in fair value of equity investments designated at fair value through other comprehensive income	61	(560)	(1,204)	(371)	(455)	(374)	(802)	(124)
Actuarial gains/(losses) on pension benefits	(25)	(20)	(132)	(34)	58	(188)	63	10

	Year ended 31 December			Six months ended 30 June		Nine months ended 30 September		
	2018	2019	2020	2020	2021	2020	2021	2021
	(RMB in million unless otherwise stated)			*(RMB in million unless otherwise stated)*		*(RMB in million unless otherwise stated)*		*(U.S.$ in million unless otherwise stated)*
	(audited)			*(unaudited)*		*(unaudited)*		
Changes in fair value attributable to change in the credit risk of financial liability designated at FVPL	(14)	25	7	44	(36)	33	(45)	(7)
Others	-	-	20	26	7	20	2	0
Subtotal	22	(555)	(1,309)	(335)	(426)	(509)	(782)	(121)
Other comprehensive income for the year	4,072	3,202	(8,549)	(1,007)	(1,339)	(6,064)	111	17
Comprehensive income for the period	78,237	81,264	71,021	35,990	41,534	47,407	65,603	10,161
Net profit attributable to:								
Shareholders of the Bank	73,630	77,281	78,274	36,505	42,019	52,712	64,360	9,968
Non-controlling interests	535	781	1,296	492	854	759	1,132	175
Total comprehensive income attributable to:								
Shareholders of the Bank	77,461	80,414	69,960	35,403	40,799	46,778	65,594	10,159
Non-controlling interests	776	850	1,061	587	735	629	1,009	156
Basic and diluted earnings per share for profit attributable to the shareholders of the Bank (in RMB yuan/U.S.$ per share (Restated)	0.96	1.00	0.99	0.46	0.54	0.65	0.80	0.12

Consolidated Statement of Financial Position

	As at 31 December			As at 30 June	As at 30 September	
	2018	2019	2020	2021	2021	2021
	(RMB in million)			*(RMB in million)*	*(RMB in million)*	*(U.S.$ in million)*
	(audited)			*(unaudited)*	*(unaudited)*	
Assets						
Cash and balances with central banks	840,171	760,185	817,561	810,320	782,993	121,270
Due from and placements with banks and other financial institutions	848,067	648,488	571,130	712,370	628,788	97,387

	As at 31 December			As at 30 June	As at 30 September	
	2018	**2019**	**2020**	**2021**	**2021**	**2021**
	(RMB in million)			*(RMB in million)*	*(RMB in million)*	*(U.S.$ in million)*
	(audited)			*(unaudited)*	*(unaudited)*	
Derivative financial assets	30,730	20,937	54,212	35,584	30,078	4,658
Financial investments at fair value through profit or loss	376,386	406,498	482,588	575,837	579,252	89,715
Financial investments at amortised cost	2,000,505	1,929,689	2,019,529	2,050,282	2,133,730	330,473
Financial investments at fair value through other comprehensive income	445,018	669,656	735,220	726,547	699,068	108,272
Loans and advances to customers	4,742,372	5,183,653	5,720,568	6,208,293	6,317,333	978,430
Investment in associates and joint ventures	3,653	4,600	4,681	5,505	5,670	878
Property and equipment	153,286	171,179	169,471	167,054	167,814	25,991
Deferred income tax assets	21,975	24,065	27,991	29,119	30,897	4,785
Other assets	69,008	86,650	94,665	93,049	97,000	15,023
Total assets	9,531,171	9,905,600	10,697,616	11,413,960	11,472,623	1,776,883
Liabilities						
Due to and placements from banks and other financial institutions	2,162,293	1,904,082	1,787,491	1,838,106	1,824,461	282,573
Financial liabilities at fair value through profit or loss	23,109	26,980	29,279	20,532	23,068	3,573
Derivative financial liabilities	28,105	26,424	55,942	33,702	27,710	4,292
Due to customers	5,793,324	6,072,908	6,607,330	7,016,652	6,986,659	1,082,096
Certificates of deposits issued	366,753	498,991	634,297	792,542	822,843	127,442
Current income tax liabilities	2,279	7,086	3,786	3,326	3,977	616
Deferred income tax liabilities	598	918	1,286	1,491	1,622	251
Debt securities issued	317,688	403,918	497,755	541,597	576,347	89,265
Other liabilities	131,714	163,381	201,822	230,097	249,076	38,576
Total liabilities	8,825,863	9,104,688	9,818,988	10,478,045	10,515,763	1,628,684
Equity						
Share capital	74,263	74,263	74,263	74,263	74,263	11,502
Other equity Instruments	59,876	99,870	133,292	174,790	174,790	27,072
Including: Preference shares	59,876	59,876	44,952	44,952	44,952	6,963
Perpetual bonds	–	39,994	88,340	129,838	129,838	20,109
Capital surplus	113,663	113,663	111,428	111,428	111,428	17,258
Other reserves	321,442	328,310	333,176	345,770	347,379	53,802
Retained earnings	129,161	177,141	214,448	217,357	236,486	36,627
Equity attributable to shareholders of the Bank	698,405	793,247	866,607	923,608	944,346	146,261
Equity attributable to non-controlling interests of ordinary shares	6,903	7,665	8,763	9,086	9,289	1,439

	As at 31 December			As at 30 June	As at 30 September	
	2018	2019	2020	2021	2021	2021
	(RMB in million)			*(RMB in million)*	*(RMB in million)*	*(U.S.$ in million)*
	(audited)			*(unaudited)*	*(unaudited)*	
Equity attributable to non-controlling interests of other equity instruments	–	–	3,258	3,221	3,225	499
Non-controlling interests	6,903	7,665	12,021	12,307	12,514	1,938
Total equity	705,308	800,912	878,628	935,915	956,860	148,199
Total equity and liabilities	9,531,171	9,905,600	10,697,616	11,413,960	11,472,623	1,776,883

Financial Indicators

	As at/for the year ended 31 December			As at/for the six months ended 30 June		As at/for the nine months ended 30 September	
	2018	2019	2020	2020	2021	2020	2021
Return on average assets[(1)]..........................	0.80	0.80	0.77	0.72	0.78	0.69	0.79
Cost-to-income ratio[(2)] ..	31.50	30.11	28.29	28.91	27.78	29.35	27.88

	As at 31 December			As at 30 June	As at 30 September
	2018	2019	2020	2021	2021
	(%)			*(%)*	*(%)*
Non-performing loan ratio	1.49	1.47	1.67	1.60	1.60
Provision coverage ratio	173.13	171.77	143.87	149.29	156.60
Tier 1 capital adequacy ratio[(3)].........................	12.21	12.85	12.88	13.11	13.14
Core Tier 1 capital adequacy ratio[(3)]	11.16	11.22	10.87	10.59	10.68
Capital adequacy ratio[(3)]	14.37	14.83	15.25	15.29	15.75

Notes:

(1) Calculated by dividing annualised net profit of the reporting period by the average of total assets at the beginning and the end of the reporting period.

(2) Calculated as business and management fees divided by net operating income after the deduction of other operating expenses, consistent with the financial report in accordance with China Accounting Standards.

(3) Calculated pursuant to the Administrative Measures for the Capital Management of Commercial Banks (Trial Implementation) by the China Banking and Insurance Regulatory Commission.

RISK FACTORS

The section in the Original Offering Circular entitled "***RISK FACTORS – Risks Relating to the Bank's Business***" is deemed to be deleted in its entirety and replaced as follows:

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

The Group has been, and in the future will continue to be, materially affected by geo-political, economic and market conditions, including factors such as the liquidity of the global financial markets, any Sino-U.S. trade friction, the level and volatility of debt and equity prices, interest rates, currency and commodities prices, investor sentiment, inflation, and the availability and cost of capital and credit. A number of governments revised GDP growth forecasts downward for 2020 in response to the economic slowdown caused by the spread of COVID-19, and it is possible that the outbreak of COVID-19 may cause a prolonged global economic crisis or recession.

Since 2017, there has been a more inward-looking policy agenda in the U.S. aimed at encouraging U.S. companies to bring back jobs, renegotiating trade pacts and stimulating the domestic economy via infrastructure spending and tax reforms. In Europe, the exit of the United Kingdom from the European Union, and any prolonged period of uncertainty which results, could have a significant negative impact on international markets. These could include further falls in stock exchange indices, a fall in the value of the Pound, an increase in exchange rates between the Pound and the Euro and/or greater volatility of markets in general due to the increased uncertainty.

The implications of these developments for the world and the Group are significant. First, a rise in global trade protectionism may negatively impact the trade-dependent economies in Asia. Second, the interplay of U.S. fiscal and monetary policies, and ongoing quantitative easing programmes in Japan and Europe may lead to more volatile global capital flows, which could in turn impact global growth. Third, financial market volatility and increased uncertainty may have a broader global economic impact that may in turn have a material adverse effect on the Group's business, financial condition and results of operations.

Inflationary pressures have also started to increase as the rebound in global commodity prices and weak domestic currencies have led businesses to pass on their increased input costs to consumers through higher selling prices. This adds to the uncertain global economic outlook.

To the extent uncertainty regarding the economic outlook negatively impacts consumer confidence and consumer credit factors globally, the Group's business, financial condition and results of operations could be significantly and adversely affected.

Investors should be aware that there are recent historical financial crises and boom-bust cycles in multiple markets in both emerging and developed economies which leads to risks for all financial institutions, including the Group. In addition, the Group remains subject to the risks posed by the indirect economic effect of the global credit crisis, some of which cannot be anticipated and the vast majority of which are not under its control. The Group also remains subject to counterparty risk arising from financial institutions that can fail or are otherwise unable to meet their obligations under their contractual commitment to the Group. If there is another global or regional financial crisis or a downturn in the economic condition of the Group's primary markets, this would likely have a material adverse effect on the Group's business, financial condition and results of operations.

If the Bank is unable to effectively maintain the quality of its loan portfolio or to manage its off balance sheet statement exposures, its financial condition and results of operations will be materially and adversely affected.

Results of the Bank's operations may be negatively impacted by its impaired loans. Under IFRS, the accounting standards that are applicable to the Bank, loans are impaired if there is objective evidence that the Bank will not be able to collect all amounts due according to the original contractual terms of loans. In this regard, the Bank 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 in recent years, despite the ongoing weak macroeconomic environment. As at 31 December 2018 and 2019 and 2020 and 30 June 2021, the Bank's individually identified impaired loans were RMB72,512 million, RMB78,043 million, RMB97,698 million and RMB101,432 million, respectively, and its impaired loan ratios were 1.49 per cent., 1.47 per cent., 1.67 per cent. and 1.60 per cent., respectively. However, there can be no assurance that the Bank's credit risk management policies, procedures and systems are free from any deficiency. The occurrence of any deficiencies in the Bank's credit risk management policies, procedures and systems may result in an increase in the level of its impaired loans and adversely affect the quality of its loan portfolio. As a result, there can be no assurance you that the Bank will be able to continue to effectively control the level of impaired loans in its loan portfolio. In particular, the amount of the Bank's reported impaired loans and the ratio of its impaired loans to its loans and advances to customers may increase in the future as a result of deterioration in the quality of its loan portfolio. Such deterioration may occur for a variety of reasons, including factors which are beyond the Bank's control, such as a recent slowdown in economic growth and other adverse macroeconomic trends in China, the significant decline in market liquidity of China's interbank market or a deterioration in the financial condition or results of operations of the Bank's borrowers, which could impair the ability of the Bank's borrowers to service their debt. These include the Bank's corporate and individual loan borrowers, as well as the domestic and overseas commercial banks and non-bank financial institutions with whom the Bank engages in interbank lending activities. If such a deterioration occurs, it could materially and adversely affect the Bank's financial condition and results of operations.

In addition, the Bank has issued credit related commitments, guarantees and letters of credit. The primary purpose of these instruments is to ensure that funds are available to customers as required. These instruments represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties. As a result, these instruments carry similar credit risk as loans and in the event of default by the relevant customers, the Bank's financial condition and results of operations will be materially and adversely affected.

The Bank has a concentration of loans to certain industries and borrowers, and any significant or extended downturn in any of these industries or deterioration in the financial condition of the Bank's major borrowers may adversely affect its financial condition and results of operations.

As at 30 June 2021, approximately 11.16 per cent., 3.37 per cent., 11.94 per cent., 10.23 per cent., 5.91 per cent. and 6.02 per cent. of the Bank's loans were concentrated in the manufacturing sector, the wholesale and retail trade sector, the transportation, storage and postal services sector, the leasing and commercial services sector, the water conservancy, environmental and other public utilities sector and the real estate sector, respectively. Although the Bank follows credit risk management policies with respect to extensions of credit to different industry sectors, including credit extension guidelines for different industry sectors, closely monitors its credit risks in different industries and has recently enhanced its guidelines in extending credit, any significant or extended downturn in any of these sectors may reduce the borrowing activities in these sectors, increase the level of the Bank's impaired loans and related provision for impaired loans, reduce the Bank's net profit and adversely affect its financial condition and results of operations.

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

Governmental financing platforms primarily comprise state-owned or state-run investment or financing institutions whose financing activities are primarily applied to infrastructure construction or governmental investment projects of a quasi-social welfare nature and whose financing activities are fully or partially indemnified or guaranteed by local financial authorities. In recent years, the Bank made continuous improvement in the monitoring and management of its loans, by ways of raising standards and introducing stricter requirements for guarantees. Similar measures in disbursement control and with respect to new projects were implemented on loans made to local government financing platforms. The default of any portion of such loans for any reason, including macroeconomic volatility or policy changes, may adversely affect the quality of the Bank's loans to these entities.

As at 30 June 2021, 21.86 per cent. of the Bank's loans were mortgage loans and 6.02 per cent. of its loans were lent to real estate development companies, which together accounted for 27.88 per cent. of the Bank's total outstanding loans before impairment allowance. The PRC government has in recent years, from time to time, imposed macroeconomic control measures that are aimed at preventing the real estate market and certain other industries from over-heating. Such measures may adversely affect the growth and quality of the Bank's loans related to real estate and such other industries. In accordance with the PRC government's macroeconomic policy and the guidance and compliance requirements of the CBIRC, the Bank aims to maintain a cautious approach to real estate development loans, and has further adopted industry-specific risk management procedures with respect to the real estate sector. The Bank has also adopted a rigorous mortgage evaluation system to ensure the quality of its mortgage customers. In addition, the Bank regularly subjects its assets to multi-factor stress tests, including movements in housing prices, which the Bank's loans have been able to withstand without significant deterioration.

Under prevailing PRC banking regulations, the total outstanding credit exposure to a single group customer may not exceed 15 per cent. of the net capital base of a bank and the total outstanding loans to the same borrower shall not exceed 10 per cent. of the net capital base of a bank. The Bank is currently in compliance with these regulatory requirements.

If any of the sectors in which the Bank's loans are highly concentrated significantly deteriorates, the Bank's asset quality, financial condition and results of operations may be materially and adversely affected. Moreover, any inaccurate assessment of the credit risks regarding the borrowers in any of these sectors may adversely affect the Bank's asset quality, financial condition and results of operations.

The Bank is subject to risks associated with real estate related loans.

The Bank's loans and advances to the real estate sector primarily comprise loans issued to real estate companies and individual housing loans. The Bank's loans issued to real estate companies include, among others, loans for real estate development, land reservation loans and asset-backed loans.

With respect to its real estate loans, the Bank follows strictly its credit risk management procedures, including ongoing credit monitoring of borrowers' financial information, and strict enforcement of repayment schedules. In addition, the Bank has established a regional risk alert system and loan policy adjustment mechanism applicable to the real estate sector. The Bank 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. However, the real estate market may be affected by factors beyond the Bank's control, including cyclical economic volatility and downturns. In addition, the PRC government has in recent years, from time to time, 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 the Bank's loans to the real estate industry and its financial condition and results of operations.

Deterioration in the debt repayment abilities of local government financing vehicles to which the Bank extends loans may adversely affect its asset quality, financial condition and results of operations.

The Bank's loans to local government financing platforms are mainly made to the investment and financing platforms of various development zones, state-owned asset management companies, land reserve companies and urban construction investment companies, covering a number of industries including water, environment and public utility management, transportation, storage, postal services and leasing and commercial services.

Recently, with the aim of reinforcing the risk management of loans to local government financing platforms, the PRC State Council, the CBIRC and the PBOC, along with several other PRC regulatory authorities promulgated a series of notices, guidelines and other regulatory documents to direct PRC banks and other financial institutions to optimise and strengthen their risk management measures regarding their loans to local government financing platforms. The Bank has consistently focused on the risks associated with loans to the local government financing platforms through a series of measures such as imposing stringent regional controls on disbursing loans to local government financing platforms, establishing a list of approved cities and lending limits and establishing credit and credit product related policies. Through such measures, the risks associated with loans to local government financing platforms, the aggregate volume of loans and their investment direction are subject to control with the goal of ensuring that the Bank's loans are primarily disbursed to key construction and development areas of the state and projects of high quality. While the Bank has taken various measures to reduce the risks of default, unfavourable developments in macroeconomic conditions, adverse changes to state policies, adverse changes to the financial condition of local governments or other factors may adversely affect the debt repayments of these financing platforms, which may in turn materially and adversely affect the Bank's asset quality, financial condition and results of operations.

The Bank's outstanding loans are heavily concentrated in certain regions, and any significant downturn in any of these regions may adversely affect the Bank's financial condition and results of operations.

As at 30 June 2021, approximately 27.42 per cent., 14.49 per cent. and 12.54 per cent. of the Bank's loans and advances were concentrated in the Yangtze River Delta, the Bohai Rim Economic Zone and the Pearl River Delta, respectively. In addition, a substantial portion of the Bank's corporate customers and the majority of its branches, sub-branches and self-service centres are located in the Yangtze River Delta, the Bohai Rim Economic Zone and the Pearl River Delta. The Bank currently expects that the future growth of its corporate and personal finance businesses, especially its corporate and individual loan businesses, will continue to be concentrated in these areas. Any significant economic downturn in any of these regions may adversely affect the Bank's financial condition and results of operations. Moreover, any inaccurate assessment of the credit risks regarding the borrowers in any of these regions may adversely affect the Bank's asset quality, financial condition and results of operations.

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

A substantial portion of the Bank's loans is secured by collateral or pledge or guarantees. The loans secured by collateral and pledge are collectively referred to as the loans secured by security. The Bank's loan security primarily includes real estate and other assets that are located in the PRC, the value of which may significantly fluctuate or decline due to factors beyond the Bank's control, including macroeconomic factors affecting the PRC economy. An economic slowdown in the PRC may lead to a downturn in the PRC real estate markets, which may in turn result in declines in the value of the security securing many of the Bank's loans to levels below the outstanding principal balance of such loans. Any decline in the value of the security securing the Bank's loans may result in a reduction in the amount the Bank can recover from security realisation and an increase in its impairment losses.

The Bank conducts internal re-evaluations of security regularly, and it hires independent appraisers to re-evaluate certain security from time to time. However, the Bank may not have current information on the value of such security, which may adversely affect the accurate assessment of its loans secured by such security. Losses might also result from the Bank's failure to conduct property preservation in a timely or proper manner while the borrowers' financial and credit conditions deteriorate. In addition, in certain circumstances, the Bank's rights to the security securing its loans may have lower priority than certain other rights.

In China, the procedures for liquidating or otherwise realising the value of security in the form of tangible assets may be protracted and it may be difficult to enforce claims in respect of such security. As a result, it may be difficult and time-consuming for the Bank to take control of and liquidate the security securing the impaired loans.

With respect to guarantees of the Bank's loans provided by third parties, the Bank is subject to the risk that the financial condition of the guarantors of these loans may deteriorate significantly, or that a court or other judicial or government authorities may declare such guarantees to be invalid. The Bank is therefore exposed to the risk that it may not be able to recover all or any part of the amount of these guarantees in respect of its loans.

As a result, any significant decline in the value of the security or deterioration of the financial condition of the guarantors or any failure by the Bank to enforce its rights as a secured creditor may adversely affect the Bank's financial condition and results of operations.

The high proportion of the Bank's loans due within one year may adversely affect the reliability and stability of the Bank's interest income, or result in a higher default rate on its loans.

Interest income from loans represents a substantial portion of the Bank's total interest income. A substantial portion of the Bank's loans consists of loans that are due within one year. From the Bank's historical experience, a substantial portion of these loans is rolled over upon maturity and, as a result, these loans have been a stable source of interest income. There can be no assurance, however, that this will continue to be the case, particularly if competition increases or alternative sources of funding at lower interest rates become available to the Bank's customers. In addition, the concentration of short-term loans means that the repayment of such loans may be more vulnerable to, and could result in, a rise in default rates in case of any downturns in the PRC economy or in the specific sectors of the PRC economy to which the Bank primarily lends. Either of these factors could have an adverse effect on the Bank's financial condition and results of operations.

The Bank may not be able to manage the various risks it will face as the Bank expands the range of its products and services, which also include non-commercial banking financial products and services.

Part of the Bank's strategy is to expand the range of products and services that the Bank offers to its customers in the PRC and overseas, including non-commercial banking financial products and services. For example, the Bank has recently introduced and sought to strengthen new products and services in the areas of wealth management (such as its "Win to Fortune" accounts), mobile banking (such as its e-Mobile BOCOM product), insurance, finance leasing, asset management, trust services, offshore financial services, custodian and investment banking services. The Bank operates its non-commercial banking financial products and services through separate subsidiaries. In 2000, the Bank established China BoCom Insurance Co., Ltd. ("**BoCom Insurance**", formerly China Communications Insurance Co., Ltd. prior to the change in its name in 2007) to provide different types of general insurance products and services to its customers. Bank of Communications Schroder Fund Management Co., Ltd. ("**BoCom Schroder Fund**"), which was established in 2005 as a joint venture with Schroder Investment Management Limited and the China International Marine Containers (Group) Co., Ltd., offers wealth management products and services. In 2007, the Bank established BoCom International Holdings Company Limited. ("**BoCom International Holdings**") through the restructuring and integration of its wholly owned subsidiary BOCOM International Securities Limited (registered and established in June 1998) to provide investment banking, securities trading and asset management services. In January 2010, the Bank acquired a controlling interest in China Life CMG Life Assurance Co., Ltd. from China Life Insurance Company Limited. The company, which the Bank renamed BoComm Life Insurance Company Limited following the acquisition, offers life insurance products and services. With the acquisition, the Bank became the first of the domestic banks in the PRC to acquire a controlling interest in a domestic insurance company and receive an insurance license. In 2019, the Bank established BOCOM Wealth Management Co., Ltd. ("**BOCOM Wealth**") to continuously enrich and optimise the wealth management product service system. In August 2020, the Bank incorporated BOCOM Financial Technology Company Limited (交银金融科技有限公司) ("**BOCOM Financial Technology**") to explore innovations of FinTech talent management technology introduction, and research and development mechanism of application system and promote the digital and intelligent transformation of the Bank. The Bank has also entered into a cooperation arrangement with HSBC with respect to credit card and other financial products and services. As the Bank expands the range of its products and services, it will be exposed to new and potentially increasingly complex risks, including, but not limited to, the following:

- the Bank may not have sufficient experience or expertise in certain new products and services and may not compete effectively in these areas;
- the Bank's new products and services may not be accepted by its customers or meet its expectations for profitability;
- the Bank may need to hire additional qualified personnel who may not be available on commercially viable terms;
- the Bank may not have sufficient financial, operational, management and other human resources to support the expanded range of its products and services;
- the Bank may have disagreements with the joint venture partners and other entities with which the Bank offers certain of its new financial products and services, and they may be unable or unwilling to continue their arrangements with the Bank due to financial difficulties or other reasons;
- the Bank may be faced with risks in integrating the acquired businesses with which the Bank offers certain of these new products and services;
- the Bank may fail to obtain regulatory approval for its new products or services;

- a slowdown in China's economic development could adversely affect the ability of personal borrowers and credit card holders to make payments, thereby increasing the probability of defaults and reducing the demand for personal loans and credit cards; and
- the Bank may not be successful in enhancing its risk management and internal control capabilities and information technology systems to support a broader range of products and services.

Any or all of these types of risks could have an adverse effect on the Bank's financial condition and results of operations.

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

The Bank is required to comply with applicable anti-money-laundering, anti-terrorism laws and other regulations in the PRC, Hong Kong and other jurisdictions where the Bank has operations. These laws and regulations require the Bank, among other things, to adopt and enforce "know your customer" policies and procedures and to report suspicious and large transactions to the applicable regulatory authorities in different jurisdictions. While the Bank 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 Bank may be used by other parties to engage in money laundering or other illegal or improper activities. To the extent the Bank may fail to fully comply with applicable laws and regulations, the relevant government agencies to whom the Bank reports have the power and authority to impose fines and other penalties on the Bank, which could harm its business and reputation, which in turn may negatively affect the Bank's ability to service the Notes and to satisfy its other obligations under the Notes.

Any failure or ineffectiveness in implementing its centralised management may adversely affect the Bank's business operations, financial condition and reputation.

The Bank's efforts to centralise its management and initiatives it has undertaken and continues to undertake to improve management of its branches may not be sufficient to prevent all irregular transactions or incidents. Furthermore, in the event that any irregular transactions or incidents occur, the Bank may not be able to timely detect and take appropriate measures to resolve them. If incidents or other irregular transactions do occur, relevant PRC regulatory authorities may take disciplinary actions or impose fines or other types of penalties against the Bank, and the Bank's business and reputation as a result may be materially and adversely affected.

The Bank is subject to a number of risks inherent in the Bank's business, including credit risk, market risk, liquidity risk and operational risk, and there can be no assurance that the Bank's risk management and internal control policies and procedures can protect the Bank against all such risks.

In its operations as a commercial bank, the Bank is subject to a number of risks inherent in the Bank's business, including credit risk, liquidity risk and operational risk. One of the principal risks inherent in the Bank's business is credit risk. The Bank may not be able to effectively implement its credit risk management system or continue to improve it so that it can function effectively. The Bank's credit rating system process involves detailed analysis of the borrower's credit risk, taking into account both quantitative and qualitative factors. The qualitative factors are, by their nature, subject to the individual judgment of the Bank's employees. In exercising their judgment, if the Bank's employees are not able to assign an accurate credit rating to a borrower, the Bank may be exposed to risks associated with the inaccurate assessment. In addition, the Bank may not be able to timely detect potential risks associated with particular industries or types of customers, such as affiliated entities or groups of customers, or, due to limited resources or tools available to the Bank, its employees may not be able to effectively implement them. With respect to market risk, the Bank's methods to manage market risks, including observing historical market behaviour, may not be able to timely or precisely predict future market risk exposures, which could be significantly greater than those indicated by historical measures. Liquidity risk is inherent in banking operations and can be heightened by a number of factors, including changes in credit ratings or market-wide phenomena such as financial market instability. While it is the Bank's policy to manage its liquidity prudently, exceptional market events may materially and adversely affect its financial condition and results of operations. The Bank may also be exposed to the risk of unexpected increases in the cost of funding its asset portfolio at appropriate maturities and the risk of being unable to liquidate a position in a timely manner and/or at a reasonable price. With respect to operational risk, the Bank's internal control system is the essential means to maintain the integrity of its business, financial condition and results of operation. Although the Bank has significantly enhanced its risk management and internal control policies and procedures in recent years in an effort to improve its risk management capabilities and enhances its internal control, including its internal audit function, there can be no assurance that the Bank's staff will be able to consistently follow these policies and guidelines at all times.

There can be no assurance that the Bank's risk management and internal control policies and procedures will adequately control, or protect the Bank against, all credit, market, liquidity and other risks. Further, the Bank's risk management capabilities are limited by the information, tools or technologies available to it. Information, including information provided by third parties, may not be accurate, complete, up-to-date or properly evaluated in all cases. There can be no assurance that the Bank will be able to continue to upgrade its risk management tools and information technology systems, or operate such tools and systems and monitor and analyse the effectiveness of such tools and systems. To the extent that the Bank cannot effectively enhance its risk management and internal controls or its risk management and internal control system are not effectively implemented or consistently applied, the Bank's business operations, financial results and reputation may be materially and adversely affected.

The Bank's business, reputation and prospects may be adversely affected if the Bank is not able to timely detect and prevent fraud or other misconduct committed by its employees, customers or other third parties.

The Bank is subject to fraud and other misconduct committed by its employees, customers or other third parties, which could adversely affect the Bank's business, reputation or prospects. Such misconduct could take a variety of forms including, among other things:

- hiding unauthorised or illegal activities that may result in unknown and unmanaged risks or losses;
- engaging in unauthorised transactions to the Bank's detriment, breaching applicable laws or its internal control procedures or violating financial accounting rules;
- improper extensions of credit;
- misapplying or failing to apply the loan classification standards thereby resulting in misclassifications within the Bank's loan portfolio;
- engaging in misrepresentation or fraudulent, deceptive or otherwise improper activities when marketing or selling products to the Bank's customers;
- improperly using or disclosing confidential information;
- falsifying or concealing information, including illegal or unlawful activities or credit information, during the credit application or loan classification process;
- binding the Bank to transactions that exceed authorised limits; and
- accepting bribes, soliciting illegal commission payments and embezzling the Bank's money.

The Bank has in the past experienced incidents of fraud and other misconduct committed by employees, customers and other third parties. Although these incidents have not materially adversely affected the Bank's financial condition or results of operations, the Bank has enhanced its risk management and internal controls to avoid future occurrences of similar incidents. Specifically, the Bank has strengthened its auditing efforts over key business processes and key personnel as well as strengthened its efforts in identifying illegal dealings between its employees and customers. While the Bank seeks to continue improving its risk management and internal control systems, including internal audit, management information systems, reporting procedures and staff awareness, to help prevent and detect such fraud or misconduct, the Bank cannot predict whether or when such fraud or misconduct will happen and in what form, and there can be no assurance that the Bank will be able to timely detect or prevent such fraud or misconduct. As a result, the Bank's business, reputation and prospects may be adversely affected if the Bank is not able to timely detect and prevent fraud or other misconduct committed by its employees, customers or other third parties.

The effect of inflation on the Bank's banking business.

China has continued to experience high inflationary pressure in recent years due to, among other things, improvement of liquidity in the global financial system, rises in asset prices and cost. The Bank believes that under the PRC government's macroeconomic control, inflation is for the moment kept under control. Meanwhile, the spread between bank deposit and bank loans is effectively under government control and protection, and so the Bank believes that so long as such control continues, the Bank's business will be sheltered from inflation to some extent. Nonetheless, if the inflationary pressure intensifies and if the Bank's interest margin narrows as a result of government action, the Bank's business and operation results may be materially and adversely affected.

The growth rate of the Bank's loan portfolio may slow down, and the Bank may not be successful in implementing its strategies to grow its business.

The Bank's total loans and advances to customers have grown significantly in recent years, increasing from RMB4,854,228 million as at 31 December 2018 to RMB5,304,275 million as at 31 December 2019, representing an increase of 9.27 per cent. and increased further to RMB5,848,424 million as at 31 December 2020, representing an increase of 10.26 per cent. The Bank's total loans and advances to customers has further increased to RMB6,346,703 million as at 30 June 2021, representing an increase of 8.52 per cent. The growth of the Bank's loan portfolio may be affected by various factors, such as China's macroeconomic policies and capital constraints. In the future, the growth rate of the Bank's loan portfolio may slow down, or the Bank's loan portfolio may not grow or may even decline. In addition, due to the constraints from the amount of its regulatory capital, the Bank may adopt strategies to reduce its reliance on its loan portfolio or expand its activities in other lower risk businesses that have relatively lower capital requirements. Any of the foregoing factors could impact the growth of the Bank's loan portfolio and thereby adversely affect the Bank's business and future prospects.

In addition, the Bank has implemented a variety of strategies to grow its business, including continuing to expand its domestic and overseas branch network and introducing new products and services, such as mobile banking services, additional fee based services, such as wealth management services, additional credit card products and services and insurance products and services. The Bank may not be successful in implementing its strategies to grow its business, and the Bank's efforts to provide new products and services may strain its resources and divert management attention from its core lending business.

The Bank may need additional capital in the future, and it may not be able to obtain such capital on acceptable terms, or at all, which may result in a lower capital adequacy ratio.

The Basel Committee on Banking Supervision formally promulgated Basel III in December 2010. The CBRC promulgated the CBIRC Capital Regulations on 7 June 2012 based on the reform of the banking industry and the existing regulatory framework of the PRC, taking into account the effect of and requirements set out in Basel II and Basel III. The CBIRC Capital Regulations came into effect as of 1 January 2013; and on the same date the Measures on the Administration of the Capital Adequacy Ratio of Commercial Banks, which was promulgated by the CBRC on 23 February 2004 and amended on 3 July 2007, was revoked. The CBIRC Capital Regulations establish a unified regulatory system in respect of the capital adequacy ratio, clarify the definition of capital, expand the range of capital risk coverage, raise the bottom line for the capital adequacy ratio and set a six-year transition period (from 2013 to 2018) for banks to comply with capital adequacy ratio requirements. On 30 November 2012, the CBRC issued the Notice on Matters in relation to the Implementation of Transition Period Arrangements in the (Trial) Measures on the Administration of the Capital of Commercial Banks, which provides the regulatory standards and implementation course for the transition period. As a result, the Bank is required to maintain a minimum core tier one capital adequacy of 5 per cent., a minimum tier one capital adequacy of 6 per cent. and a minimum capital adequacy of 8 per cent. The capital conservation buffer requirement for the Bank is 2.5 per cent., which should be satisfied through core tier one capital. In addition, the Bank is a domestic systemically important bank and is required to maintain a further 1 per cent. capital surcharge above prevailing core tier 1 capital requirements. The relevant regulatory authorities are also able to impose countercyclical capital buffer requirements on an individual bank from time to time. As at 30 June 2021, the Group's core tier 1 capital adequacy ratio, tier 1 capital adequacy ratio and capital adequacy ratio were 10.59 per cent., 13.11 per cent. and 15.29 per cent., respectively, which satisfy the regulation requirements. Although the Bank was in compliance with the regulatory requirements as at 30 June 2021, future developments could affect the Bank's ability to continue to satisfy applicable capital adequacy requirements, including:

- changes in PRC accounting rules or in the guidelines regarding the calculation of the capital adequacy ratios of commercial banks;
- increases in the minimum capital adequacy requirements by the banking regulators;
- increases in the Bank's risk-weighted assets as a result of the rapid expansion of its business;
- decreases in the value of the Bank's investment assets;
- losses resulting from deterioration in the Bank's asset quality; and
- decreases in the Bank's net profits and thus decreases in its retained earnings.

In order for the Bank to grow, remain competitive, enter into new businesses, expand its base of operations or meet regulatory capital adequacy requirements, the Bank may require new funding in the future. Moreover, the Bank may need to raise additional capital in the event of any increase in the minimum regulatory capital adequacy requirements by the CBIRC or large losses in its loan portfolio that result in a reduction of its shareholders' equity. The Bank's ability to obtain additional capital in the future is subject to a variety of factors, including:

- its future financial condition, results of operations and cash flows;
- any necessary government regulatory approvals;
- its credit rating;
- general market conditions, especially conditions for capital-raising activities by commercial banks and other financial institutions; and
- economic, political and other conditions both within and outside the PRC.
- If the Bank is unable to obtain sufficient additional capital in a timely and cost effective manner, its business, financial condition and results of operations may be adversely affected.

If the Bank fails to meet the capital adequacy requirements, the CBIRC may require it to take corrective actions, including, for example, restricting the growth of its loans and other assets or restricting its declaration or distribution of dividends. These measures could adversely affect the Bank's reputation, financial condition and results of operations.

The Bank's liabilities mainly comprise short-term funding, principally in the form of deposits, and the Bank's liquidity may be materially and adversely affected if a substantial portion of its short-term deposits fails to roll over upon maturity or if the Bank's banking business is not able to attract sufficient deposits to fund its loan activities.

The Bank regularly monitors the maturity gap between assets and liabilities and assesses liquidity risk of different periods. Most of the funding requirements of the Bank's banking business are met through short-term funding, principally in the form of deposits, including customer deposits and interbank deposits. In the past, the Bank's customer deposits have been a stable source of funding for its banking business since the short-term deposits are normally not withdrawn until the maturities of them. There can be no assurance, however, that this practice will continue. If a substantial portion of the Bank's depositors take out their demand deposits or do not roll over deposited funds upon maturity, the Bank's liquidity could be materially and adversely affected, and the Bank may be required to seek more expensive sources of short-term or long-term funding to finance its operations. There can be no assurance that the Bank will be able to obtain finance on normal commercial terms when necessary. Besides, the Bank's ability to obtain additional funding is subject to other factors of which may not be under the Bank's control such as the deterioration in overall market conditions, severe disruptions in financial markets or the poor prospects of Bank's industries with significant credit exposure. These factors could adversely affect the liquidity, business, financial conditions and operation performance of the Bank and have further adverse effect on the market value of the Notes and the Bank's ability of performing obligations under the Notes.

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

The Bank classifies its loans as "pass", "special-mention", "sub-standard", "doubtful" and "loss" by using the five-category classification system according to PRC regulations. The Bank's five-category classification system may be different in certain respects from those of banks incorporated in other countries or regions. As a result, it may reflect a different degree of risk than would be reported if the Bank were incorporated in those countries or regions.

The Bank may be exposed to risks relating to labour and employment.

The Bank faces intense competition in recruiting and retaining employees as other banks are competing for the same pool of talent. Given that PRC labour laws and regulations allow employees to freely choose their jobs, the Bank's employees may choose to resign at any time to pursue other opportunities and may seek to take with them customer relationships that they have developed while working for the Bank. Consequently, the Bank has entered into confidentiality agreements with all of its employees and non-compete agreements with its senior management and other staff members owing a special duty of confidentiality which specify the scope, territory and duration of non-competition. There can be no assurance that such confidentiality agreements and non-compete agreements will enable the Bank to retain its employees effectively or at all.

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

Most aspects of the Bank's business are dependent on the quality of its staff. The Bank devotes considerable resources to recruiting, training and compensating these personnel. However, the Bank faces increased competition in recruiting and retaining these individuals as other banks are competing for the same pool of potential employees. In addition, the Bank's employees may choose to resign at any time to pursue other opportunities and may seek to divert customer relationships that they have developed while working for the Bank. The majority of the Bank's employees are not subject to non-compete agreements.

The Bank's corporate finance operations depend to a significant extent on qualified relationship managers to distribute the Bank's products, and the Bank plans to increase the number and efficiency of these relationship managers. In addition, the Bank intends to increase the number of financial advisers employed by its personal finance operations and enhance their training. However, these plans may not be implemented successfully, if at all.

The Bank's largest shareholders may individually or collectively take actions that are not in, and may conflict with, the best interests of the Bank or the Noteholders.

As at 30 June 2021, the Bank's top three shareholders, MOF, HKSCC Nominees Limited (ultimately held by all institutional and individual investors who maintained an account with it) and The Hongkong and Shanghai Banking Corporation Limited, collectively own, directly and indirectly, 62.75 per cent. of the Bank's outstanding shares. Accordingly, the Bank's largest shareholders may have the ability to individually or collectively exercise significant influence over the Bank's business, including matters relating to:

- the issuance of new securities;
- the election of the Bank's directors and supervisors;
- the Bank's management, especially the composition of its senior management, due to their significant influence over the Bank's Board;
- the Bank's business strategies and policies;
- the timing and amount of the distribution of dividends;
- any plans relating to mergers, acquisitions, joint ventures, investments or divestitures; and
- amendments to the Bank's articles of association (the "Articles of Association").

The Bank's largest shareholders may individually or collectively take actions that investors may not agree with or that are not in the best interests of the Bank or the Noteholders.

The Bank's operations management is dependent on the proper functioning and improvement of its information technology systems. Inability to maintain an effective technology system may have a material adverse effect on the Bank's business, financial condition and results of operations.

The Bank's business is highly dependent on the ability of its information technology systems to timely and accurately collect and process a large amount of financial and other information across numerous and diverse markets and products at its various branches and subsidiaries, at a time when transaction processes and volumes have become increasingly complex and large. The proper functioning of the Bank's financial control, risk management, accounting or other data collection and processing systems, together with the communication networks connecting the Bank's various branches and its main data processing centre, is critical to the Bank's businesses and to its ability to compete effectively. Although the Bank has backup systems that could be used in the event of catastrophe or failure of the primary systems, a partial or complete failure of any of these primary systems or communication networks could adversely affect the decision-making process, the risk management and internal controls of the Bank as well as its timely response to changing market conditions. If the Bank cannot maintain an effective data collection and management system, the Bank's business operations, financial condition and results of operations could be materially and adversely affected.

In addition, the Bank must continually make significant investments, upgrades and improvements in its information technology infrastructure in order to remain competitive. The quality and timing of information available to and received by the Bank's management through its existing information systems may not be sufficient to manage risks or to plan for and respond to changes in market conditions and other developments in the Bank's operations. The Bank may experience difficulties in upgrading, developing and expanding its information technology systems quickly enough to accommodate its growing customer base.

The Bank may be affected by the Financial Institutions (Resolution) Ordinance.

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 to the extent it conducts licensed activities in Hong Kong. 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, the relevant resolution authority is provided with powers to affect contractual and property rights as well as payments (including in respect of any priority of payment) that creditors would receive in resolution. These may include, but are not limited to, powers to cancel, write off, modify, convert or replace all or a part of the Notes or the principal amount of, or interest on, the Notes, and powers to amend or alter the contractual provisions of the Notes, all of which may adversely affect the value of the Notes, and the holders thereof may suffer a loss of some or all of their investment as a result. Holders of Notes (whether senior or subordinated) may become subject to and bound by the FIRO. 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, its operations and/or its financial position.

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

As a result of current PRC regulatory restrictions, substantially all of the Bank's Renminbi-denominated investment assets are concentrated in a limited number of investments permitted for PRC commercial banks, such as debt securities issued by central governments and central banks, public sector entities, banks and other financial institutions. The Bank is only permitted to a limited degree to invest in debt and equity securities of eligible corporate entities. These restrictions on the Bank's ability to diversify its investment portfolio limit the Bank's ability to seek an optimal return. In addition, the Bank is exposed to a certain level of risk as a result of the concentration of its Renminbi-denominated investment securities. For example, any deterioration of the financial condition of commercial banks in China would increase the risks associated with holding their debt securities. Consequently, a decrease in the value of any of these types of investments could have a material adverse effect on the Bank's financial condition and results of operations.

The Bank may be subject to administrative sanctions, fines and other penalties for violations, particularly for using its funds in a manner that is inconsistent with, or impermissible under, the applicable limitations set forth in the PRC Commercial Banking Law.

The PRC Commercial Banking Law, which became effective in July 1995 and last amended in 2015, prohibits any investment by a PRC financial institution in a non-financial institution. The Bank's holdings or investments were completed prior to the enactment of the 1995 PRC Commercial Banking Law. The Bank has been unable to completely dispose of these investments primarily because: (1) certain of these institutions are undergoing bankruptcy or liquidation; (2) the Bank's investments in certain institutions is small, making it difficult to find a buyer for these investments; and (3) the Bank is unable to find buyers for some of the investments due to their poor market liquidity and low rates of return. The Bank has been active in its efforts to terminate these investments, including making provisions for impairment; writing off or disposing of these investments in accordance with relevant rules and policy changes; actively seeking purchasers for its shareholdings in these institutions; and otherwise disposing of these investments in accordance with reasonable market terms. While the Bank has not been subject to any material administrative sanctions, fines or other penalties for such investments, there can be no assurance that the relevant regulatory authorities would not take additional actions against the Bank in the future. Any future administrative sanctions, fines or other penalties, including those discussed above, may have a material adverse effect on the Bank's business, financial condition and results of operations.

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

The Bank is subject to various PRC and overseas regulatory requirements, and the PRC and overseas regulatory authorities conduct periodic inspections, examinations and inquiries in respect of its compliance with such requirements. On occasion the Bank may fail to comply with certain requirements and guidelines set by the relevant regulatory authorities. If sanctions, fines and other penalties are imposed on the Bank for failing to comply with applicable requirements, guidelines or regulations, the Bank's business, financial condition, results of operations and its reputation may be materially and adversely affected.

Notwithstanding that such business activities may not themselves be subject to sanctions, the Group may face secondary sanctions if it is determined to be providing material support to countries or entities that are the subject of sanctions. If the Group engages in any prohibited transactions by any means, or if it is otherwise determined that any of its transactions violated OFAC-administered or other sanctions regulations, the Group could be subject to penalties, and the Group's reputation and ability to conduct future business in the United States or with U.S. entities, or in other affected jurisdictions, could be affected, which may materially and adversely affect the Group's business, financial condition and results of operations and the Issuer's ability to make payments, and satisfy the Group's other obligations, under the Notes may also be adversely affected.

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

The Bank acts primarily as an intermediary in domestic and international foreign exchange and derivative markets, and the Bank currently has foreign currency forward and swap arrangements with a number of domestic and international banks, financial institutions and other entities. The Bank also has interest rate swap arrangements. The Bank does not typically enter into foreign currency or interest rate derivative arrangements for its own account but are subject to credit risk from its various counterparties. As at 30 June 2021, the fair values of the Bank's outstanding derivative assets and liabilities amounted to RMB35,584 million and RMB33,702 million, respectively. Although the Bank believes that the overall credit quality of its counterparties is adequate, there can be no assurances that parties which the Bank has significant exposures to will not face difficulty in paying amounts on derivative contracts when due.

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

In recent years, the Bank has continued to expand its international operations. As at 30 June 2021, the Bank had overseas subsidiaries branches and representative offices in Hong Kong, New York, Tokyo, Singapore, Seoul, Frankfurt, Macau, Ho Chi Minh City, San Francisco, Sydney, Taipei, London, Luxembourg, Brisbane, Paris, Rome, Brazil, Melbourne, Toronto, Prague and Johannesburg (excluding the representative office). As at 30 June 2021, the Bank had established 23 overseas branches (sub-branches) and representative offices with 69 operating outlets in 18 countries and regions. The Bank's international expansion into multiple jurisdictions exposes it to a variety of regulatory and business challenges and risks and has increased the complexity of the Bank's risks in a number of areas, including currency risk, interest rate risk, credit risk, regulatory and compliance risk, reputational risk and operational risk. The loan portfolio of the Bank's international branches includes foreign currency-denominated loans to PRC companies engaged in international trade. This exposes the Bank to additional risks including default risk resulting from the failure in the performance of the import or export agreements by any party, trade protectionist measures or other factors, and the Bank's inexperience in various aspects of the economic and legal framework in overseas markets. Adverse market conditions in these international jurisdictions may result in mark-to-market and realised losses on the investment assets held by the Bank's overseas branches and subsidiaries and increase their cost of funding. Furthermore, despite the Bank's best efforts to comply with all applicable regulations in all the jurisdictions in which the Bank operates, there may be incidents of its failure to comply with the regulations in certain jurisdictions. Regulators have the power to bring administrative or judicial proceedings against the Bank or its employees, representatives, agents and third party service providers, which could result, among other things, in suspension or revocation of one or more of the Bank's licenses, cease and desist orders, fines, civil penalties, criminal penalties or other disciplinary actions. In addition, the recent global financial crisis is expected to lead to significant regulatory changes in various jurisdictions, including those in which the Bank has operations. These changes may include changes with respect to capital and liquidity ratios, cross-border capital flows and consumer protection.

The extent and impact of such changes is difficult to anticipate and estimate and such changes could have an adverse impact on the Bank's growth, capital adequacy and profitability. If the Bank is unable to manage the risks resulting from its international expansion, its business, reputation, results of operations and financial condition may be adversely affected.

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

The Bank does not hold the land use right certificates or building ownership certificates of some land or buildings it occupies. The Bank will apply for relevant land use right certificates and building ownership certificates that it does not yet hold. Upon obtaining the relevant certificates for these properties, the Bank will have the legal right to occupy, let, transfer and mortgage such property. The Bank may not be able to obtain all of the title deeds for the defective properties and the Bank is uncertain how the Bank's rights as owner/occupier of these defective properties would be adversely affected as a result of the absence of the title deeds as described above.

The Bank leases multiple properties as its operating offices for its branches in China. There can be no assurance that the lessors of all these properties possess the relevant land use right certificates or building ownership certificates and third parties may therefore challenge the validity of the Bank's lease. If any of the Bank's leases were terminated as a result of being challenged by third parties, the Bank may be forced to seek alternative premises for these offices. If the Bank fails to find alternatives of these offices with acceptable terms, the Bank's business, financial conditions and operation performance may be adversely affected.

The implementation of International Financial Reporting Standards 9 ("IFRS 9") with effect from 1 January 2018 renders the Bank's historical financial information as at and for the year ended 31 December 2017 not directly comparable with the Bank's financial information after 1 January 2018.

With effect from the 1 January 2018, the IFRS 9 has replaced in entirety the IAS 39. Following the adoption of IFRS 9, the Bank is required to re-classify and re-measure (including impairment measurement) certain of its financial instruments from 1 January 2018 without requiring any restatement of the corresponding figures of the prior period. Investors must therefore exercise caution when making comparisons of any financial figures after 1 January 2018 against the Bank's historical financial figures prior to 1 January 2018 and when evaluating the Bank's financial condition and results of operations.

The Bank has increased its allowance for impairment losses to cover future actual losses and estimated losses to its loan portfolio in accordance with the implementation of IFRS 9.

The Bank determines a level of allowance for impairment losses and recognises any related provisions made in a year using the concept of impairment under IFRS 9. The Bank'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 Bank's allowance for impairment losses, as determined under the provisioning policies, may differ from those that would be reported if it was incorporated in those countries or regions.

As at 31 December 2018, 2019 and 2020 and 30 June 2021, the Bank's impairment allowances for loans and advances were RMB123,861 million (expected credit loss allowance, "ECL Allowance", under IFRS 9), RMB132,719 million (ECL Allowance), RMB139,274 million (ECL Allowance) and RMB150,273 million (ECL Allowance), respectively. As at 31 December 2018, 2019 and 2020 and 30 June 2021, the Bank's provision coverage ratio, calculated by dividing the outstanding balance of its impairment allowances by the outstanding balance of impaired loans, was 173.13 per cent., 171.77 per cent., 143.87 per cent. and 149.29 per cent., respectively. The Bank's business, financial position and results of operations may be affected by its policies regarding provisioning. If the Bank's approach to provisioning policies proves not to be adequate, the Bank's business, financial position and results of operations may be negatively affected, which in turn may negatively affect the Bank's ability to service the Notes and to satisfy its other obligations under the Notes.

The risk factor in the Original Offering Circular entitled "***RISK FACTORS – Risks Relating to the PRC – Any future occurrence of natural disasters or outbreaks of contagious diseases in Asia and globally may have a material adverse effect on the Bank's business operations, financial condition and results of operations.***" is deemed to be deleted in its entirety and replaced as follows:

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

Since 2020, the pandemic of COVID-19 has spread around the world, becoming the most severe shock to hit the global economy after the 2008 global financial crisis. With the normalisation of domestic pandemic prevention and control and gradual improvements in domestic demand, China's economy is recovering. Overall, both opportunities and challenges exist in the banking industry. 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 United Kingdom, 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 policies and suspension or relaxation of capital requirements on the banks. These measures aim to reduce the economic impact of the COVID-19 pandemic, stabilise the capital markets and increase market liquidity. 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 overcome challenges resulting from COVID-19.

In response, the Bank will continue to uphold the new concept of development, focus on value creation and adhere to stable operations while making full use of the geographical advantage of its presence in Shanghai and Fintech services in the second half of 2020 to ensure stable income. After the outbreak of the epidemic of

COVID-19, the Group strictly followed the regulatory policies and requirements and prudently evaluates the repayment ability of the clients who apply for extension for repayment. The Group has taken certain methods such as providing extensions to qualified clients to help them overcome financial challenges due to COVID-19 on the basis that such measures would not enlarge subsequent risks or affect future collection. There was an obvious pressure on the Bank's quality of credit assets. As at 30 June 2021, the non-performing loans of the Group amounted to RMB101,432 billion and its non-performing loan ratio was 1.60 per cent., representing an increase of RMB3,734 billion and a decrease of 0.07 per cent., respectively, over the end of the previous year. Any occurrence of a similar epidemic with a severe domestic or global impact could restrict the level of economic activities generally and/or slow down or disrupt the Bank's business activities including, but not limited to, a decline in demand for residential mortgage advances, a reduction in the number of customers visiting the Bank's branches and an adverse impact on asset quality due to a weakened economy and higher unemployment rate which could in turn adversely affect the Bank's business or financial condition or results of operations.

Concerns about the spread of COVID-19 and H7N9 strain of flu (the "Avian Flu") in China and globally and outbreaks of the H1N1 virus (the "Swine Flu") in North America, Europe and Asia in the past have caused governments to take measures to prevent spread of the virus. The outbreak of communicable diseases such as the ones listed above on a global scale may affect investment sentiment and result in volatility in global capital markets or adversely affect PRC and other economies.

Moreover, China has experienced natural disasters like earthquakes, floods and drought in the past few years. Any future occurrence of severe natural disasters in China may adversely affect its economy and in turn the Bank's business. The Bank will continue to pay close attention to the progression of the epidemic and actively assess and respond to its impacts on the Bank's financial position and operating results. There can be no assurance that the Bank's business, financial condition and result of operations would not be adversely affected if an outbreak of a similar pandemic such as COVID-19, Swine Flu, SARS, Avian Flu or another highly contagious disease occurs. There can be no assurance that the Bank's business, financial condition and result of operations would not be adversely affected if another outbreak of a natural disaster occurs.

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE REPRESENTED BY THE GLOBAL NOTES OR THE GLOBAL CERTIFICATE

The section in the Original Offering Circular entitled "*SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE REPRESENTED BY THE GLOBAL NOTES OR THE GLOBAL CERTIFICATE*" is deemed to be deleted in its entirety and replaced as follows:

Initial Issue of Notes

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

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

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

Relationship of Accountholders with Clearing Systems

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

If a Global Note or a Global Certificate is lodged with a sub-custodian for or registered with the CMU, the person(s) for whose account(s) interests in such Global Note or Global Certificate are credited as being held in the CMU in accordance with the CMU Rules shall be the only person(s) entitled (or, in the case of Registered Notes, directed or deemed by the CMU as entitled) to receive payments in respect of Notes represented by such Global Note or Global Certificate and the Issuer will be discharged by payment to, or to the order of, such person(s) for whose account(s) interests in such Global Note or Global Certificate are credited as being held in the CMU in respect of each amount so paid. Each of the persons shown in the records of the CMU, as the beneficial holder of a particular nominal amount of Notes represented by such Global Note or Global Certificate must look solely to the CMU for his share of each payment so made by the Issuer in respect of such Global Note or Global Certificate.

Exchange

Temporary Global Notes

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

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

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

The CMU may require that any such exchange for a permanent Global Note is made in whole and not in part and in such event, no such exchange will be effected until all relevant account holders (as set out in a CMU Issue Position Report (as defined in the rules of the CMU) or any other relevant notification supplied to the CMU Lodging and Paying Agent by the CMU) have so certified.

Permanent Global Notes

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

(i) if the permanent Global Note is held on behalf of Euroclear or Clearstream or the CMU or any other clearing system (an "Alternative Clearing System") and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or in fact does so or

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

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

Global Certificates

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

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

(i) if the relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so;

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

(iii) with the prior consent of the Issuer,

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

Partial Exchange of Permanent Global Notes

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

Delivery of Notes

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

Exchange Date

"Exchange Date" means (i) in relation to an exchange of a temporary Global Note to a permanent Global Note, the day falling after the expiry of 40 days after its issue date; or (ii) in relation to an exchange of a permanent Global Note to a Definitive Note, a day falling not less than 60 days or in the case of exchange following failure to pay principal in respect of any Notes when due 30 days, after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Fiscal Agent is located and in the cities in which the relevant clearing systems are located.

Amendment to Conditions

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

Payments

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

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

In respect of a Global Note or Global Certificate held through the CMU, any payments of principal, interest (if any) or any other amounts shall be made to the person(s) for whose account(s) interests in the relevant Global Note or Global Certificate are credited (as set out in the records of the CMU) at the close of business on the Clearing System Business Day immediately prior to the date for payment and, save in the case of final payment, no presentation of the relevant bearer Global Note or Global Certificate shall be required for such purpose. For the purpose of this paragraph, "Clearing System Business Day" means a day on which the CMU is operating and open for business.

Prescription

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

Meetings

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

Cancellation

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

Purchase

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

The Option of the Issuer

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

Noteholders' Options

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

Notices

So long as any Notes are represented by a Global Note or Global Certificate and such Global Note or Global Certificate is held on behalf of (i) Euroclear and/or Clearstream or any other clearing system (except as provided in (ii) below), notices to the holders of Notes of that Series may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions or by delivery of the relevant notice to the holder of the Global Note or Global Certificate or (ii) the CMU, notices to the holders of Notes of that Series may be given by delivery of the relevant notice to the CMU in substitution for publication as required by the Conditions or by delivery of the relevant notice to the holder of the Global Note or Global Certificate, and any such notice shall be deemed to have been given to the Noteholders on the day on which such notice is delivered to the CMU.

Partly Paid Notes

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

FORM OF PRICING SUPPLEMENT

The section in the Original Offering Circular entitled **"*FORM OF PRICING SUPPLEMENT*"** is deemed to be deleted in its entirety and replaced as follows:

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

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

UK PRIIPs REGULATION – PROHIBITION OF SALES TO UK RETAIL INVESTORS – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom ("**UK**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the "**EUWA**"); (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 (the "**UK Prospectus Regulation**").

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.]

[**MiFID II product governance / Professional investors and ECPs only target market** — Solely for the purposes of [the/each] manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in [Directive 2014/65/EU (as amended, "MiFID II")]/[MiFID II]; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. 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 ("**COBS**"), and professional clients, as defined in Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 ("**UK MiFIR**"); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturer['s/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.] / [*appropriate target market legend to be included*]

[**Singapore SFA Product Classification** — In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the "SFA") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "CMP Regulations 2018"), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are [prescribed capital markets products] / [capital markets products other than prescribed capital markets products] (as defined in the CMP Regulations 2018) and [are] [Excluded] / [Specified] Investment Products (as defined in MAS Notice SFA 04-N 12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendation on Investment Products).][1]

Pricing Supplement dated [●]
Bank of Communications Co., Ltd. [Hong Kong/[●]] Branch

Legal Entity Identifier of Bank of Communications Co., Ltd.: 549300AX1UM10U30HK09

Issue of [*Aggregate Nominal Amount of Tranche*] [*Title of Notes*]
under the U.S.$12,000,000,000 Medium Term Note Programme

This document constitutes the Pricing Supplement relating to the issue of Notes described herein. Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Offering Circular dated [*original date*] [and the supplemental Offering Circular dated [*date*]].

This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with such Offering Circular [as so supplemented]. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of the Offering Circular[, the supplemental Offering Circular dated [*date*]] and this Pricing Supplement.

[*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 Conditions (the "Conditions") set forth in the Offering Circular dated [*original date*]. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with the Offering Circular dated [*current date*] [and the supplemental Offering Circular dated [*date*]], save in respect of the Conditions which are extracted from the Offering Circular dated [*original date*] and are attached hereto. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of the Offering Circular[, the supplemental Offering Circular dated [*date*]] and this Pricing Supplement.]

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

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

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

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

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

[*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 directions for completing the Pricing Supplement*.]

1	Issuer:	Bank of Communications Co., Ltd. [Hong Kong/[●]] Branch
2	[(i)] Series Number:	[●]
	[(ii) Tranche Number:]	[●]
	[(iii) 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 27 below, which is expected to occur on or about [*date*]][Not Applicable][(1)]
3	Specified Currency or Currencies:	[●]
4	Aggregate Nominal Amount:	[●]
	[(i)] Series:	[●]
	[(ii) Tranche:	[●]]
5	[(i)] Issue Price:	[●] per cent. of the Aggregate Nominal Amount [plus accrued interest from [*insert date*] (*in the case of fungible issues only, if applicable*)]

	[(ii) Net proceeds:	[●] (*Required only for listed issues*)]
6	Use of Proceeds	[●] (*If applicable, include relevant disclosure if proceeds are used to repay indebtedness of relevant Dealer(s)*)
7	(i) Specified Denominations:	[●][(2)]
	(ii) Calculation Amount[(5)]:	[●]
8	(i) Issue Date:	[●]
	(ii) Interest Commencement Date:	[*Specify*/Issue date/Not Applicable]
9	Maturity Date:	[specify date (*for Fixed Rate Notes*) or (*for Floating Rate Notes) Interest Payment Date falling in or nearest to the relevant month and year*][(3)]
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] [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:	[Put] [Call] [(further particulars specified below)]
14	(i) Status of the Notes:	Senior Notes
	(ii) Regulatory approval for issuance of Notes obtained[(6)]:	[[●]/None required][(6)]
15	Listing:	[●]/Other (*specify*)/None]
16	Method of distribution:	[Syndicated/Non-syndicated]
17	Private Bank Rebate/Commission:	[Applicable/Not Applicable]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

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

			Business Centre(s) for the definition of "Business Day"]/not adjusted]
	(iii)	Fixed Coupon Amount[(s)]:	[●] per Calculation Amount[5]
	(iv)	Broken Amount:	[●] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [●] [*Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Coupon Amount[(s)] and the Interest Payment Date(s) to which they relate*]
	(v)	Day Count Fraction (Condition 5(j)):	[30/360/Actual/Actual (ICMA/ISDA)/Other] (*Day count fraction should be Actual/Actual-ICMA for all fixed rate issues other than those denominated in US dollars or Hong Kong dollars, unless the client requests otherwise*)
	(vi)	Determination Date(s) (Condition 5(j)):	[●] in each year. [Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon][7]
	(vii)	Other terms relating to the method of calculating interest for Fixed Rate Notes:	[Not Applicable/*give details*]
19	Floating Rate Note Provisions		[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i)	Interest Period(s):	[●]
	(ii)	Specified Interest Payment Dates:	[●]
	(iii)	Interest Period Date(s):	[Not Applicable/specify dates] (*Not applicable unless different from Interest Payment Date*)
	(iv)	Business Day Convention:	[Floating Rate Business Day Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other (*give details*)]
	(v)	Business Centre(s) (Condition 5(j)):	[●]
	(vi)	Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination/ other (*give details*)]
	(vii)	Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Calculation Agent):	[●]
	(viii)	Screen Rate Determination (Condition 5(b)(iii)(B)):	
		— Reference Rate:	[●]

		— Interest Determination Date:	[*[●] [TARGET] Business Days in [specify city] for [specify currency] prior to [the first day in each Interest Accrual Period/each Interest Payment Date]*]
		— Relevant Screen Page:	[●]
	(ix)	ISDA Determination (Condition 5(b)(iii)(A)):	
		— Floating Rate Option:	[●]
		— Designated Maturity:	[●]
		— Reset Date:	[●]
		— ISDA Definitions: (if different from those set out in the Conditions)	[2000/2006]
	(x)	Margin(s):	[+/-] [●] per cent. per annum
	(xi)	Minimum Rate of Interest:	[●] per cent. per annum
	(xii)	Maximum Rate of Interest:	[●] per cent. per annum
	(xiii)	Day Count Fraction (Condition 5(j)):	[●]
	(xiv)	Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions:	[●]
20	Zero Coupon Note Provisions		[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i)	Amortisation Yield (Condition 6(b)):	[●] per cent. per annum
	(ii)	Day Count Fraction (Condition 5(j)):	[●]
	(iii)	Any other formula/basis of determining amount payable:	[●]
21	Index Linked Interest Note Provisions		[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i)	Index/Formula:	[*Give or annex details*]
	(ii)	Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the [Agent]):	[●]
	(iii)	Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable:	[●]

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

PROVISIONS RELATING TO REDEMPTION

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

24	Put Option	[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i) Optional Redemption Date(s):	[●]
	(ii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s):	[●] per Calculation Amount
	(iii) Notice period:	[●]
25	Final Redemption Amount of each Note	[●] per Calculation Amount
26	Early Redemption Amount	
	(i) Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons (Condition 6(c)) or Event of Default (Condition 10) and/or the method of calculating the same (if required or if different from that set out in the Conditions):	[●]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

27	Form of Notes:	[Bearer Notes/Registered Notes/Dematerialised Registered Notes] [*Delete as appropriate*] [temporary Global Note exchangeable for a permanent Global Note which is exchangeable for Definitive Notes in the limited circumstances specified in the permanent Global Note] [temporary Global Note exchangeable for Definitive Notes on [●] days' notice] [permanent Global Note/Certificate exchangeable for Definitive Notes/Certificates on [●] days' notice/at any time/in the limited circumstances specified in the permanent Global Note/Certificate](8)
28	Financial Centre(s) (Condition 7(h)) or other special provisions relating to payment dates:	[Not Applicable/*Give details. Note that this item relates to the date and place of payment, and not interest period end dates, to which item 17(ii), 18(iv) and 20(vii) relate*]
29	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*]
30	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*]

31	Details relating to Instalment Notes:	[Not Applicable/*give details*]
	(i) Instalment Amount(s):	[●]
	(ii) Instalment Date(s):	[●]
	(iii) Minimum Instalment Amount:	[●]
	(iv) Maximum Instalment Amount:	[●]
32	Redenomination, renominalisation and reconventioning provisions:	[Not Applicable/The provisions annexed to this Pricing Supplement apply]
33	Consolidation provisions:	[Not Applicable/The provisions annexed to this Pricing Supplement apply]
34	Other terms or special conditions:	[Not Applicable/*give details*](9) [The definition of the "Relevant Jurisdiction" as set out in Condition 8 shall be deemed to be deleted in its entirety and replaced with the following: ""Relevant Jurisdiction" means [jurisdiction where the relevant branch is located], the PRC (as defined in Condition 10) or any political subdivision or any authority thereof or therein having power to tax or any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax to which the Issuer becomes subject in respect of payments made by it of principal and interest on the Notes."](10) [Condition 1 (*Form, Denomination and Title*) and Condition 2 (*No Exchange of Notes and Transfers of Registered Notes*) — no definitive Certificates shall be issued, and all references to "Noteholders" shall mean the accountholders at [the relevant clearing system] as from time to time certified by [the relevant clearing system] (the "[the relevant clearing system] Accountholders"). Condition 7 (*Payments and Talons*) — all payments shall be made to [the relevant clearing system] Accountholders. Condition 11 (*Meeting of Noteholders and Modifications*) — the persons entitled to attend and vote at a meeting shall be [the relevant clearing system] Accountholders. Condition 14 (*Notices*) — notices shall be given to [the relevant clearing system] for communications purposes in accordance with rules and procedures of [the relevant clearing system] for the time being. All Conditions requiring presentation or surrender of Certificate are not applicable.

		A deed poll dated the Issue Date has been executed by the Issuer and delivered to the Fiscal Agent.][11]

DISTRIBUTION

35	(i) If syndicated, names of Managers:	[Not Applicable/*give names*]
	(ii) Stabilisation Manager (if any):	[Not Applicable/*give name*]
36	If non-syndicated, name of Dealer:	[Not Applicable/*give name*]
37	U.S. Selling Restrictions:	[Reg. S Category 1/2; TEFRA D/TEFRA C/TEFRA Not Applicable]
38	Additional selling restrictions:	[Not Applicable/*give details*]
39	Prohibition of Sales to EEA Retail Investors:	[Applicable/Not Applicable] (*If the Notes clearly do not constitute "packaged" products, "Not Applicable" should be specified. If Notes may constitute "packaged" products and no KID will be prepared in the EEA, "Applicable" should be specified*.)
40	Prohibition of Sales to UK Retail Investors:	[Applicable/Not Applicable] (*If the Notes clearly do not constitute "packaged" products, "Not Applicable" should be specified. If the Notes may constitute "packaged" products and no KID will be prepared in the UK, "Applicable" should be specified*.)

OPERATIONAL INFORMATION

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

GENERAL

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

49	In the case of Bearer Notes, specify the location of the office of the Fiscal Agent if other than London:	[Not Applicable/Hong Kong]

[LISTING APPLICATION

This Pricing Supplement comprises the final terms required to list the issue of Notes described herein pursuant to the U.S.$12,000,000,000 Medium Term Note Programme of Bank of Communications Co., Ltd. Hong Kong Branch.]

[STABILISATION

In connection with the issue of any Tranche of Notes, one or more of the Dealers named as Stabilisation Manager (or persons acting on behalf of any Stabilisation Manager(s)) in this Pricing Supplement may, to the extent permitted by applicable laws and directives, over-allot and effect transactions with a view to supporting the market price of Notes of the Series of which such Tranche forms part 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 regulations.]

[MATERIAL ADVERSE CHANGE STATEMENT

[Except as disclosed in this document, there/There][(12)] has been no significant change in the financial or trading position of the Issuer or of the Group since [***insert date of last audited accounts or interim accounts (if later)***] and no material adverse change in the financial position or prospects of the Issuer or of the Group since [***insert date of last published annual accounts***].]

RESPONSIBILITY

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

Signed on behalf of the Issuer:

By: ______________________

Duly authorised

Notes:

(1) For a tap of a Reg S Cat 2 issue and where notes are in registered form or go straight into permanent global form (TEFRA C) (such that there is not a TEFRA D temporary global note), consider whether a temporary ISIN may still be necessary to comply with the distribution compliance period. If so, the following wording may be considered "The Notes will be consolidated and form a single Series with the [identify earlier Tranches] (the "Original Notes") on the date that is 40 days after the Issue Date (the "Exchange Date"). Until the Exchange Date the Notes will have a temporary ISIN and temporary Common Code ("Temporary ISIN" and "Temporary Common Code", respectively). After the Exchange Date the Notes will have the same ISIN and Common Code ("Permanent ISIN" and "Permanent Common Code" respectively) as the Original Notes".

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

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

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

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

(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, CNY0.05 in the case of Renminbi denominated Fixed Rate Notes or to the nearest HK$0.01, HK$0.005 in the case of Hong Kong dollar denominated Fixed Rate Notes, being rounded upwards."

(6) State the date of the Pre-Issuance NDRC Registration.

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

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

(9) If full terms and conditions are to be used, please add the following here:

"The full text of the Conditions which apply to the Notes [and which will be endorsed on the Notes in definitive form] are set out in [the Annex hereto], which Conditions replace in their entirety those appearing in the Offering Circular for the purposes of these Notes and such Conditions will prevail over any other provision to the contrary."

The first set of bracketed words is to be deleted where there is a permanent global Note instead of Notes in definitive form. The full Conditions should be attached to and form part of the Pricing Supplement.

(10) Required only for an Issuer other than Bank of Communications Co., Ltd. Hong Kong Branch.

(11) Required only for dematerialised Registered Notes.

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

CAPITALISATION AND INDEBTEDNESS

The section in the Original Offering Circular entitled "***CAPITALISATION AND INDEBTEDNESS***" is deemed to be deleted in its entirety and replaced as follows:

Capitalisation and Indebtedness of the Bank

The following table sets forth the actual consolidated debt and capitalisation of the Bank as at 30 June 2021. Investors should read this table in conjunction with the Bank's unaudited consolidated interim financial statements as at and for the six months ended 30 June 2021 included in this Offering Circular.

Except for the translation amount shown in U.S.$, the Bank's unaudited consolidated interim financial statements as at 30 June 2021 set forth below are derived from the published unaudited consolidated interim financial statements as at and for the six months ended 30 June 2021.

	As at 30 June 2021	
	(RMB in million)	*(U.S.$ in million)*
	(unaudited)	*(unaudited)*
Debt		
Debt securities issued	541,597	83,883
Other borrowings[(1)]	8,854,758	1,371,427
Total debt	9,396,355	1,455,310
Equity		
Share capital	74,263	11,502
Other equity instruments	174,790	27,072
Capital surplus	111,428	17,258
Other reserves	345,770	53,553
Retained earnings	217,357	33,664
Non-controlling interests	12,307	1,906
Total equity	935,915	144,955
Total capitalisation[(2)]	10,332,270	1,600,265

Notes:

(1) Other borrowings include amounts due to and placements from banks and other financial institutions and amounts due to customers.

(2) Total capitalisation equals the sum of total debt and total equity.

In October, the Bank exercised its right to redeem all of its EUR500,000,000 Tier-2 capital bonds due 2026.

In September 2021, the Bank issued RMB30 billion 3.65 per cent. 10-year fixed rate Tier-2 capital bonds in the national inter-bank bond market.

Unless otherwise disclosed in this Offering Circular, there has not been any material change in the capitalisation of the Bank since 30 June 2021.

DESCRIPTION OF THE BANK

The section in the Original Offering Circular entitled **"*DESCRIPTION OF THE BANK*"** is deemed to be deleted in its entirety and replaced as follows:

OVERVIEW

Founded in 1908, the Bank is one of the note-issuing banks with the longest history in modern China. In 1986, the State Council of the PRC decided to reorganise the Bank. The Bank reopened after reorganisation on 1 April 1987. It is the first nationwide state-owned joint-stock commercial bank in China, with the head office located in Shanghai. The Bank made its first public offering of its H shares and listing on the Hong Kong Stock Exchange in June 2005, and its first public offering of its A shares and listing on the Shanghai Stock Exchange in May 2007. The Bank was the sixth largest commercial bank in the PRC based on total assets as at 31 December 2020. The Group was ranked in Fortune 500 for twelve consecutive years, and ranked No. 162 in 2020. The Group ranked No.11 among the global Top 1000 banks rated by *The Banker*.

Substantially all of the Bank's operations are located in the PRC and the Bank is headquartered in Shanghai. As at 31 December 2020, the Group had 245 domestic branches, including 37 provincial branches and directly-managed branches and 208 branches managed by provincial branches, most of which are concentrated in the Yangtze River Delta, Pearl River Delta and Bohai Rim Economic Zone, as well as large cities in other areas. Through this network and other distribution channels, the Group provides a broad range of financial products and services to its corporate and personal finance customers. As at 30 June 2021, in addition to its PRC operations, the Bank has branches or subsidiaries which are located in Hong Kong, New York, San Francisco, Tokyo, Singapore, Seoul, Frankfurt, Macau, Ho Chi Minh City, Sydney, Brisbane, Melbourne, Taipei, London, Luxembourg, Paris, Rome, Brazil, Prague and Johannesburg, and its representative office in Toronto commenced operations in November 2014.

The Group is engaged predominantly in banking and related financial activities. It comprises corporate banking, personal banking, treasury and other business. Corporate banking mainly comprises corporate loans, bills, trade financing, corporate deposits and remittance. Personal banking mainly comprises personal loans, personal deposits, credit cards and remittance. Treasury mainly comprises money market placements and takings, financial investment, and securities sold under repurchase agreements. The "Others Business" segment mainly comprises items which cannot be categorised in the above business segments.

For the years ended 31 December 2018, 2019 and 2020 and for the six months ended 30 June 2021, the Group's profit before tax were RMB86,067 million, RMB88,200 million, RMB86,425 million and RMB46,588 million, respectively. As at 31 December 2018, 2019 and 2020 and 30 June 2021, the Group had total assets of RMB9,531,171 million, RMB9,905,600 million, RMB10,697,616 million and RMB11,413,960 million, respectively, gross amount of loans and advances to customers before allowance for impairment of RMB4,854,228 million, RMB5,304,275 million, RMB5,848,424 million and RMB6,346,703 million, respectively, total amounts due to customers of RMB5,793,324 million, RMB6,072,908 million, RMB6,607,330 million and RMB7,016,652 million, respectively, and total equity attributable to equity holders of the parent company of RMB698,405 million, RMB793,247 million, RMB866,607 million and RMB923,608 million, respectively. As at 31 December 2018, 2019 and 2020 and 30 June 2021, the Group's non-performing loan ratios were 1.49 per cent., 1.47 per cent., 1.67 per cent. and 1.60 per cent., respectively. As at 31 December 2018, 2019 and 2020 and 30 June 2021, the Group's provision coverage ratios were 173.13 per cent., 171.77 per cent., 143.87 per cent. and 149.29 per cent., respectively.

RECENT DEVELOPMENTS

Highlights of third quarter 2021 results

The 2021 Third Quarter Financial Information was published on 29 October 2021 on the website of the Hong Kong Stock Exchange. During the third quarter of 2021, the Group insisted on the target of high-quality development and firmly grasped the macroeconomic trends and the business development patterns. By intensively focusing on the "One-Four-Five" Strategy and the principal theme of structure adjustment, the Group further consolidated the operating status of making ongoing progress and quality improvement while maintaining stability. As at 30 September 2021, the total assets of the Group increased by 7.24 per cent. over the end of the previous year to RMB11,472.623 billion. As at 30 September 2021, the total liabilities of the Group increased by 7.10 per cent. over the end of the previous year to RMB10,515.763 billion. As at 30 September 2021, the shareholders' equity (attributable to shareholders of the Bank) of the Group increased by 8.97 per cent. over the end of the previous year to RMB944,346 billion. For the nine months ended 30 September 2021, the net operating income of the Group increased by 7.85 per cent. on a year-on-year basis to RMB200,210 billion. For the nine months ended 30 September 2021, the net profit (attributable to shareholders of the Bank) of the Group increased by 22.10 per cent. on a year-on-year basis to RMB64,360 billion. The annualised return on average assets and the annualised return on weighted average net assets were 0.79 per cent. and 10.72 per cent., representing year-on-year increases of 0.10 per cent. and 1.40 per cent, respectively.

THE BANK'S AWARDS

The Bank believes the brand of "Bank of Communications" is one of the most recognised financial service brand names in China. The Bank ranked No. 11 among the Top 1000 World Banks 2020 by *The Banker*. The Bank was honoured in Fortune 500 for twelve consecutive years and was ranked No. 162 in 2020. The Bank was awarded "Outstanding Corporate Social Responsibility Award or Chinese Enterprises in 2020" and "Excellent Corporate Social Responsibility Cases in 2020" by *Xinhuanet* and "Best Bank for Poverty Alleviation Support in 2020" by *Financial Times*. Besides, the Bank was awarded "Best Brand Image Bank of the Year" and "Best Innovative FinTech Bank of the Year" by *Sina Finance*, and "Mobile Banking with Best User Experience Award" and "Best Open Bank Award" by China Financial Certification Authority (CFCA). The Bank was awarded "2020 Gamma Award for Best Comprehensive Bank in Undertaking Investment Bank Business" by the *Securities Times* and "Best Green Bond 2020 (China)" by *The Asset*. In 2019, the Bank was awarded "2019 Best Bank for Poverty Alleviation" (最佳脫貧攻堅銀行) by *Financial Times*, "2019 Excellent Green Bank" by the Green Credit Business Committee of China Banking Association ("**CBA**"), A Level for 2019 in consumer protection by the PBOC, "Annual Financial Institution" (年度金融機構) by 2019 TOP Financial List, "Award for Achievement on Implementing the Belt and Road Initiative" (積極踐行「一帶一路」倡議成效獎) by CBA, and "Top 10 Cases of Financial Innovation Serving the Real Economy in 2019" (2019金融創新服務實體經濟十大案例) by *Hong Kong Commercial Daily*. Besides, the Bank was awarded "Best Wealth Management Bank in China" (最佳銀團項目獎) by CBA. In 2018, the Bank also won numerous other awards, including "Annual Banker – Peng Chun" (年度銀行家 – 彭純) by CBN, "China Top 100 Excellent Secretary of the Board of Directors – Gu Sheng" (中國百强優秀董秘獎 – 顧生) by China Business Top 100, "Caixin ESG Excellent 50 Index Winner" (財新 ESG 美好 50 指數獲獎企業) by Caixin, "First Class Bank on the Assessment and Evaluation of the Protection of Consumer Rights in the Banking Industry" (銀行業消費者權益保護工作考核評價一級行) by CBIRC, 135 network outlets were awarded "Top 1,000 Outlets with Civilised and Standardised Services in the Banking Industry" (銀行業文明規範服務千佳單位), ranking first in the industry in terms of the number; "Best Corporate Social Responsibility Financial Enterprises" (最具社會責任金融機構) by CBA, "Best Local Bank" (最佳本地銀行) by *The Asset*, "'Jin Li Cai' Top Award of

Wealth Management Bank of the Year, 'Jin Li Cai' Outstanding Award of Personal Bank of the Year" (「金理財」年度銀行財富管理品牌卓越獎、「金理財」年度私人銀行卓越獎) by *Shanghai Securities News*, "Best Wealth Management of the Year" (年度最佳財富管理銀行) by Financial Times, "Jun Ding Award of Excellent Wealth Management Institution of the Year" (年度優秀財富管理機構君鼎獎) by Securities Times, "Best Comprehensive Bank, Best Innovative Bank" (最佳綜合性銀行、最具創新力銀行) by *Eastmoney.com*, "Best Asset-backed Securitisation Award in China", "China Best Cash Management Service Bank" (中國區最佳資產證券化獎、中國最佳現金管理服務銀行) by The Asset, "Corporate Banking with Competitiveness of Excellence of the Year" (年度卓越競爭力對公業務銀行) by *China Business Journal*, "Premier Platinum Credit Card of the Year" (年度卓越白金信用卡) by 21st Century Media, "Excellent Credit Card of the Year (Go Pay APP)" (年度卓越信用卡 APP(買單吧)) by Organizing Committee of the 21st Century Asian Financial Annual Conference, "Best Green Bonds Bank" (最佳綠色債券銀行) by *Asia Money*, "Top 10 Financial Innovation Award (Credit Card Center Intelligent Robots)" (信用卡中心智慧型機器人坐席獲十佳金融產品創新獎) by *The Banker*.

THE BANK'S COMPETITIVE ADVANTAGES

A fast growing state-owned bank in China with sustainable improvement in value creation

Known as a "centuries-old bank", the Bank established its time-honoured financial brand with a long-standing history and accumulative competitive advantages. As at 30 June 2021, the total assets of the Group amounted to approximately RMB11,413,960 million. As at 30 June 2021, the deposit balances of the Group reached RMB7,016,652 million and the loans and advances balances of the Group amounted to RMB6,346,703 million. The Bank enjoys high recognition and reputation nationwide. The Bank was ranked in Fortune 500 for twelve consecutive years, and ranked No. 162 in 2020. The Bank ranked No. 11 among the Top 1000 World Banks 2020 by *The Banker*.

The Bank has always been a pioneer of reformation in banking sector since reorganisation. The Bank is the first national joint-stock commercial bank in China, the first integrated commercial bank to carry out banking, insurance and securities businesses and the first domestic large scale commercial bank to successfully bring in foreign capital and to list overseas. In 2015, the Bank took the initiative to be responsible for the financial pilot reform in China after its reformation plan, BoCom's Plan to Strengthen Reformation, approved by the State Council. In taking "creating shared value and providing the best service" as its core value, the Bank will continue to implement reformation as appropriate and place emphasis on the continuous strategic landscape for stronger wealth management characteristics, with an aim to become a bank with top wealth management businesses and global competitive capabilities in the world.

The Bank is one of the first banks to initiate the concept of wealth management services in the industry. The brand and characteristics of wealth management became more and more prominent with the continuous development of the Bank's wealth management service system. The Bank has also obtained various licenses relating to trust, leasing, fund, insurance, securities and financial investment, to develop its wealth management business. In 2019, the Bank set up and continuously expanded its asset management subsidiary and fund management subsidiary. The Bank has built up a product and service system categorised by wealth preservation and incrementation, financial planning and risk hedging in order to provide online and offline financial services in relation to on-and-off balance sheet and debt and equity investment. Targeting retail customers, the Bank also integrated certain retail services into the system with respect to wealth management, family trust, insurance broker and asset management. As at 30 June 2021, the personal financial assets under management of the Group was nearly RMB4.4 trillion, representing an increase of 6.26 per cent. over the end of the previous year.

The Group maintains constant and steady growth in terms of its business scale. The Group's corporate banking businesses routinely increased. As at 30 June 2021, the Group's corporate deposit balance increased by 4.86 per cent. over the end of the previous year to RMB4,552,470 million, among which demand deposits increased by 4.10 per cent. over the end of the previous year; and its corporate loan balance increased by 9.51 per cent. over the end of the previous year to RMB4,059.876 billion. As at 30 June 2021, the Group's total accumulated number of qualified industrial chain networks developed by domestic branches reached 5,034 and the balance of key products of industrial value chain financing increased by 18.66 per cent. to over RMB180.0 billion on a year-on-year basis. As at 30 June 2021, the balance of loans of inclusive loans for small and micro enterprises increased by RMB66.525 billion or 29.3 per cent. over the end of the previous year to RMB293.568 billion. The number of customers with loan balance increased by 35,700 over the end of the previous year to 183,600, representing an increase of 24.13 per cent. The Group's personal banking business also showed an upward trend. As at 30 June 2021, the Group's balance of personal deposits increased by 8.72 per cent. over the end of the previous year to RMB2,383,481 million, and its balance of personal loans increased by 6.87 per cent. over the end of the previous year to RMB2,116,957 million, of which personal mortgage loans increased by 7.23 per cent. over the end of the previous year. As at 30 June 2021, there were 73.77 million registered domestic credit cards, within which customers acquired online accounted for 51.48 per cent. As at 30 June 2021, the credit card overdraft balance in domestic branches was RMB463.242 billion. The credit card overdraft non-performing ratio was 2.24 per cent. As at 30 June 2021 the accumulated consumption of debit cards amounted to RMB1,282.185 billion. The accumulated number of debit cards issued amounted to 161.5987 million, representing a net increase of 2.3597 million over the end of the previous year. The Group also focused on developing consumer finance, optimising its online application named "Benefit Loan" (namely online credit consumption loans launched by the Bank for qualified customers), leveraging its FinTech services and improving its intelligent risk management capabilities during the same period. In addition, the Group's interbank and financial market businesses progressed steadily. As at 30 June 2021, the Group's balance of due to and placements from banks and other financial institutions increased by RMB50.615 billion or 2.83 per cent. over the end of the previous year, which accounted for 17.54 per cent. of total liabilities and represented a decrease of 0.66 per cent. over the end of the previous year. The financial investment reached RMB3,352.666 billion, representing an increase of 3.56 per cent. over the end of the previous year.

Committed to building the international and comprehensive financial service platform

The Bank is committed to becoming a first-class international bank with advantages in international businesses and delivering global financial services. The Bank is one of the most internationalised domestic banks in China and its international layouts are at the forefront with respect to its domestic counterparts. Its overseas banking institutions have initially sprouted up within the Asia-Pacific area. Taking it as a base camp, the Bank also expanded its global landscape by tapping into Europe and the United States. As at 30 June 2021, the Bank established 23 overseas branches (sub-branches) and representative offices with 69 operating outlets in 18 countries and regions, providing customers with comprehensive financial services including deposits, loans and advances, international settlement, trade financing and foreign currency exchange. In 2020, the overseas branches insisted on the business philosophy of staying steady and complying with the laws and regulations, actively cooperated with domestic branches to fight against the pandemic, combined local endowments with the characteristics of these overseas branches to satisfy the cross-border financial needs of domestic customers who had the intention of "going global" and overseas customers. The Bank established overseas banking service network with 1,004 banks in 125 countries and regions, set up 256 cross-border Renminbi interbank accounts for 108 overseas Renminbi participating banks in 31 countries and regions, and opened 81 foreign currency settlement accounts in 26 major currencies with 62 banks in 31 countries and regions. In addition, for the six months ended 30 June 2021, the net profit of the Group's overseas banking institutions decreased by 6.20 per cent. on a year-on-year basis to RMB3.509 billion, whose contribution to the Bank's total net profit was 8.35 per cent. As at 30 June 2021, the total assets of the Group's overseas banking institutions decreased by 3.74 per cent. over the end of the previous year to RMB1,194.599 billion, whose contribution to the Bank's total assets was 10.47 per cent.

To facilitate the globalisation of domestic enterprises, the Bank and HSBC has also jointly launched a program named "1+1 Global Financial Cooperation" to provide related services and advices. The Bank also connected to the "Single Window" of the customs to provide one-stop trading, settlement and financing services to foreign trade companies. In addition, the Bank developed a new format of trade services, actively connected the Bank with cross-border e-Commerce enterprises and integrated foreign trade service platforms to improve the foreign exchange settlement autonomy and capital turnover efficiency of medium, small and micro enterprises. In 2021, international payment reached U.S.$230.455 billion, an increase of 52.72 per cent. on a year-on-year basis. The volume of financing for cross-border trade increased by 27.20 per cent. on a year-on-year basis to U.S.$17.225 billion.

In addition to enhancing its global influence, the Bank is also devoted to promoting the integration of its businesses. To be facilitated by its various wholly-owned and controlling subsidiaries, the Group provides comprehensive financial services and products to its customers, comprising fund, trust, financial leasing, onshore insurance, investment banking, offshore insurance, debt-to-equity swap and wealth management.

BoCom Schroder Fund, whose primary businesses are fund raising, fund sales and asset management, was awarded "Top 10 Star Fund Company" and "Star Fund Companies with Positive Return for Five Consecutive Years", "Star Fund Company in Active Equity investment" by *Securities Times* and "Golden Bull Fund Management Company" by *China Securities Journal* in 2020. Its yield of equity investment under active management ranked second (2/80) in the industry in the past five years and fifth (5/93) in the past three years.

Staying committed to fulfilling the original mission as a trust company to serve the real economy, Bank of Communications International Trust Co., Ltd. ("**BoCom International Trust**") focuses on trust loans, investment fund trusts, accounts receivable financing, real estate trusts, family trusts, charitable trusts, credit asset securitisation, corporate asset securitisation, qualified domestic institutional investor (QDII), and private equity investment trusts. As at 30 June 2021, its total assets and the assets under management (AUM) were RMB16.834 billion and RMB622.409 billion, respectively. Its net profit during the six months ended 30 June 2021 was RMB0.586 billion.

Adhering to the development strategies as "Professional, Internalisation, Differentiation and Characteristics", Bank of Communications Financial Leasing Co., Ltd. ("**BoCom Leasing**") continues to promote aviation and shipping leasing businesses, covering more than 30 countries and regions on five continents, which further highlighted the professional advantages. As at 30 June 2021, its total assets and net assets were RMB330.542 billion and RMB33.794 billion respectively. Its net profit for the six months ended 30 June 2021 was RMB1.746 billion, which is an increase of 10.3 per cent. on a year-on-year basis. In addition, its balance of leasing assets amounted to RMB284.767 billion, including aircraft and ship assets amounting to RMB170.302 billion, with fleets of 271 planes and 392 ships. Based on statistics from CBA Financial Leasing Committee, total assets, the balance of leased assets and operating income of BoCom Leasing all ranked first among domestic financial leasing companies.

In relation to onshore insurance, BoComm MSIG Life Insurance Company Limited ("**BoCommLife**") remains committed to providing insurance guarantee and maintains a stable performance. As at 30 June 2021, BoCommLife's total assets and net assets were RMB87.004 billion and RMB7.184 billion respectively. BoCommLife's net profit for the six months ended 30 June 2021 was RMB0.604 billion[2], representing an

[2] Net profit was calculated in accordance with the new accounting standard for financial instruments (IFRS 9), which was somewhat different from that calculated under IAS 39 currently adopted in the insurance sector.

increase of 31.44 per cent. on a year-on-year basis. For the six months ended 30 June 2021, the original premium income was RMB11.4 billion, representing an increase of 0.12 per cent. on a year-on-year basis.

With respect to offshore insurance, BoCom Insurance expands its banking-related insurance business domestically and overseas and officially obtains the full-coverage aviation insurance license issued by the Hong Kong Insurance Authority (namely, No. 5 Aviation Insurance License and No.11 Aviation Liability Insurance License).

As one of the first pilot banks to implement debt-to equity conversion as determined by the State Council, BOCOM Financial Asset Investment Co., Ltd. ("**BOCOM Financial Asset Investment**") is mainly engaged in debt-to-equity conversion and supporting services. As at 31 December 2020, a total of 76 debt-to-equity swap projects were put into operation, amounting to RMB43.019 billion, representing an increase of 36.87 per cent. over the end of the previous year; BOCOM Financial Assets Investment's investment amount per person, net profit per person and other indicators were at the top level in the industry, and its capital adequacy ratio was in compliance with regulatory requirements.

Furthermore, the net profits of the Group's wholly-owned and controlling subsidiaries have rapidly increased. For the six months ended 30 June 2021, net profit attributable to shareholders of the Bank from the subsidiaries[3] amounted to RMB4.928 billion representing a year-on-year increase of 49.11 per cent., the proportion of which to the Group's net profit increased by 2.68 per cent. to 11.73 per cent. on a year-on-year basis. As at 30 June 2021, the total assets of the Group's subsidiaries increased by 8.52 per cent. over the end of the previous year to RMB537.878 billion, the proportion of which to the total assets of the Group increased by 0.08 per cent. to 4.71 per cent. over the end of the previous year.

Prominent wealth management services

The Group grasped market opportunities and cooperated with sophisticated fund managers to manage its funds and investments, aiming to create conventional, popular and featured wealth management products and build up the name of BOCOM Wealth. In addition, the Group designed affordable insurance products in response to the outbreak of the COVID-19 pandemic, the trend of resumption of work and the wave of purchase of medical insurance. As at 30 June 2021, personal financial assets under management ("**AUM**") of domestic branches of the Group increased by 6.26 per cent. over the end of the previous year to RMB4.14 trillion. As at 30 June 2021, there were 67,500 private banking customers of the Group, representing an increase of 10.46 per cent. over the end of the previous year; the assets of private banking customers under management of the Group were RMB943.762 billion, representing increase of 13.19 per cent. over the end of the previous year. In addition, the Group has established comprehensive service brands for its customers in relation to wealth preservation. The Group provided retail and individual customers, corporations and financial institutions with comprehensive financial services, building up a complete series structure comprising "Win to Fortune", a corporate wealth management brand of the Bank providing comprehensive one-stop wealth management solutions for corporate and government institutions through intelligent financial service and digital transformation; "OTO Fortune", a main brand of retail business of the Bank with core value of "Creating and Sharing Abundant Wealth with Noble Virtue" devoted to realising value maintenance and appreciation of wealth for customers; and "BoCom Tong Ye Fortune", an interbank wealth management brand of the Bank with core value of "Corporation for Everlasting Enterprises" devoted to providing comprehensive product support and service solution for interbank financial customers. As at 30 June 2021, the number of qualified customers (customers with quarterly average assets of RMB0.50 million to RMB6.00 million) of OTO Fortune increased by 9.67 per cent. over the end of the previous year to RMB1.9048 million.

[3] Net profit was calculated in accordance with the new accounting standard for financial instruments (IFRS 9), which was somewhat different from that calculated under IAS 39 currently adopted in the insurance sector.

Comprehensive and robust risk management

The Board of Directors of the Bank assumed the ultimate responsibility, served the highest function of decision making and monitored the Bank's risk management through its Risk Management and Related Party Transaction Control Committee. The Bank's Senior Management established a Risk Management Committee, namely the Comprehensive Risk Management and Internal Control Committee, and two business review committees, namely the Credit and Investment Review Committee and the High-risk Asset Review Committee. The business review committees were guided by and reported to the Comprehensive Risk Management and Internal Control Committee. Each provincial and directly managed branch, overseas branch, subsidiary and directly operating institution correspondingly established the Risk Management Committee accordingly referring to the aforementioned framework, which served as the main platform to study the prevention and control of systematic and regional risks and decision-making risks on major issues, ensured that the comprehensive risk management system had been implemented throughout the Group.

In 2020, under the influence of COVID-19 pandemic and other factors, risk exposure of some customers was accelerated. Meanwhile, the Group strengthened risk identification and strictly followed asset quality classification standards. As at 30 June 2021, the balance of non-performing loans was RMB101.423 billion and the non-performing loan ratio was 1.60 per cent., representing an increase of RMB3.734 billion and a decrease of 0.07 per cent. respectively over the end of the previous year.

Experienced and professional management team and talent pool

The Group's senior management has an average of more than 20 years' experience in banking practice and is well experienced in management. Among the Group's senior management, Mr. Ren Deqi, the Chairman of the Board of Directors and Executive Director, has over 30 years' experience in banking sector, holding important positions. The Group also launched three major projects, namely, "10,000 Fintech Talent Plan", "Fintech Management Trainees" and "Empowerment Transformation of Existing Talents" to enrich its Fintech talents pool in a timely fashion. In 2020, the Bank formulated the Plan for the Cultivation of FinTech Talents (2020-2024). The Bank strived to build a technology team consisting of over 10,000 talents with "forward-looking vision, agile mind, efficient work style, and value creating ability" via external talent introduction, internal talent transformation and incentive scheme.

The Group also adheres to pursuing operational improvements and actively reforms its corporate governance structure in a professional manner. Currently, the Bank has established its modern corporate governance mechanism comprising the Shareholders' General Meeting, the Board of Directors, the Board of Supervisors and Senior Management with clearly defined roles, authorities and responsibilities. Based on their mutual coordination and individual operation, the Group protects the legitimate rights and interests of shareholders and other stakeholders and functions fairly and efficiently.

Strategic cooperation with HSBC

In 2020, under the new market positioning of "Deepen Strategic Cooperation and Create Shared Value", the Bank and HSBC overcame the adverse effects of the pandemic and continued to deepen all-round strategic cooperation, which in return achieved positive results. In 2020, under the framework of "1+1 Global Financial Services", business cooperation kept a stable growth between both parties. The Bank and HSBC collaborated to assist Chinese enterprises to "go global", concluding 4 cooperative syndicated loan projects. Both parties consolidated cooperative advantages in Hong Kong, concluding 16 cooperative syndicated loan projects and 35 bond underwriting projects. Cooperation in offshore financing and treasury business was promoted in an orderly manner, further deepening the cooperation in foreign currency settlement and cross-border Renminbi settlement. In addition, cooperation in trust business was steadily promoted. In 2020, the scale of cooperation in terms of trust business reached RMB51.57 billion. Meanwhile, both parties worked together to promote the development of businesses empowered by FinTech, enhance the efficiency of trade finance to serve the real economy, and successfully implemented the first domestic securities transaction between Chinese and foreign banks on the interbank trading platform of the CBA.

Both parties, under the framework of "Resources and Experience Sharing" (RES), continued to exchange experiences on business services and operating management with the focus on subjects such as business development and risk compliance.

Over the past 16 years, cooperation between these two banks was praised as a classic case and a successful example of the cooperation between Chinese and foreign banks. The Bank will continue to work closely with HSBC while focusing on the Yangtze River Delta integration, FinTech and other fields. Both parties will vigorously explore opportunities, explore the potentials in depth, and collaborate to create more value under the concept of mutual benefit and win-win cooperation.

THE GROUP'S PRINCIPAL BUSINESS ACTIVITIES

The Bank provides the customers with corporate banking, personal banking and interbank and financial market businesses. Corporate banking businesses include offering deposits and loans, supply chain finance, cash management, international settlement and trade finance, investment banking, asset custody, wealth management and all kinds of intermediary businesses to corporate customers and government agencies. Personal banking businesses include services such as deposits and loans, wealth management, bank cards, private banking and all kinds of intermediary businesses for individual customers. Interbank and financial market businesses include cooperation with customers in the markets of interest rates, exchange rates, commodities, providing comprehensive services such as investment and financing, transactions, agency, settlement and liquidation. In addition, the Group is involved in businesses in financial leasing, fund, trust, insurance, overseas securities, debt-to-equity conversion and asset management through wholly-owned or controlling subsidiaries.

Corporate Banking Business

As at 30 June 2021, the Group's corporate deposit balance increased by 4.86 per cent. over the end of the previous year to RMB4,552,470 million, among which demand deposits increased by 4.10 per cent. over the end of the previous year. The Group's corporate loan balance increased by 9.51 per cent. over the end of the previous year to RMB4,059.876 billion, among which medium and long-term loans increased by 10.68 per cent. over the end of the previous year.

Customer development

The Bank accelerated the construction of customer projects, and further established a stratified operation and service system. As at 30 June 2021, the total number of corporate customers of domestic branches increased by 6.94 per cent. over the end of the previous year, and the number of new accounts increased by 43.71 per cent. on a year-on-year basis. For group customers, the Bank adopted a professional and intensive business model and highlighted the level of intra-city operations of headquarter economic clusters including the Yangtze River Delta, the Beijing-Tianjin-Hebei Region and the Guangdong-Hong Kong-Macao Region. The Bank improved the refined service levels for top customers by establishing an integrated three-dimensional service team consisting of the Head Office, the branches and the sub-branches and by adhering to the rule of "One Strategy for One Account". As at 30 June 2021, the number of the Bank's group customers reached 77,500, representing an increase of 2,792 over the end of the previous year. For Government institutions customers, the Bank maintained its dominant position in the fields of government institution customers by building systems and platforms, as well as targeting at resource entry points. As at 30 June 2021, the number of government institutions customers reached 69,000, representing an increase of 658 over the end of the previous year. For small and micro basic customers, the Bank vigorously promoted the construction of online and remote customer acquisition channels, and cooperated with the optimisation of the account opening process, the construction of the outlet's corporate service capabilities and the centralised operation of online outbound teams, to create new operating models of "outlet channel", "online channel" and "remote channel" for small and micro basic customers. As at 30 June 2021, the number of small and micro basic customers reached 1.90 million, representing an increase of 0.13 million over the end of the previous year.

Scenario construction

The Bank intensively explored scenario construction through digital thinking and integrated financial services into subdivided scenarios such as medical care, schools, parks, property management, parking, mortgage and Party membership dues payment. The Bank also launched some innovative products such as Benefit Medical Payment, BoCom Smart Schools, Intelligent Financial Service Platform, e-License and e-Mortgage, upgrading the comprehensive financial solutions to all fields. Benefit Medical Payment has been launched in ten cities including Shanghai, Nanjing, Dalian, Qingdao and Shijiazhuang. BoCom Smart Schools used the monitoring mechanism of tuition collection as its platform to provide comprehensive service functions such as omni-channel tuition collection, one-stop service for electronic bills and management of non-tax revenue. The Intelligent Financial Services Platform has launched more than 20 scenario-based products, with 68,000 registered customers in total, and the number of qualified customers was 24,900, representing an increase of 47.79 per cent. over the end of the previous year. The Bank launched a comprehensive financial service solution "BoCom e-Customs" focusing on the Single Window Platform at customs to develop a new model of trade finance services covering local and foreign currencies, and accelerated the electronic construction and characteristic scenario application of non-financing letter of guarantee business, with the balance of non-financing letter of guarantee increasing by 35 per cent. on a year-on-year basis.

Industrial chain finance

Focusing on the industry leaders, the Bank consistently strengthened the expansion of industrial chain finance in key industries and built an "online + offline" digital business expansion model, with the chain finance business increasing by 49 per cent. on a year-on-year basis. The Bank promoted the digital note product series of "Win to Fortune Rapid Discount", which efficiently satisfied customers' demands for fast financing. The Bank optimised factoring financing products and developed an industrial chain rapid financing product line, with characteristics of flexible credit granting and convenient operation, which was a leap forward in the efficiency of financing. As at 30 June 2021, the total accumulated number of qualified industrial chain networks developed by domestic branches reached 5,034 and the balance of key industrial chain financing products increased by 18.66 per cent. to over RMB180.0 billion on a year-on-year basis.

Investment bank

As at 30 June 2021, the scale of the Bank's bond underwriting business (according to Wind statistics) ranked 4th in the market for the first time, and the scale of the Bank's bond underwriting according to National Association of Financial Market Institutional Investors ("**NAFMII**") (debt financing instructions of non-financial enterprises) reached RMB196.677 billion with a counter-trend increase of 8.89 per cent. against the market decrease of 4.55 per cent. on a year-on-year basis, whose ranking rose from 12th at the end of the previous year to 9th in 2021. Specifically, the scale of the Bank's NAFMII asset-backed notes underwriting increased by 94.31 per cent. to RMB13.011 billion on a year-on-year basis.

In terms of the innovative products, as at 30 June 2021, the Bank developed five Credit Risk Mitigation Warrants (CRMW) amounting to RMB1.69 billion, accounting for 21.69 per cent. and ranking first in the market. The Bank also completed the first BoCom Share Chain RMB10.0 billion N+N shelf offering project, enabling small and medium enterprises to realise supply chain financing. As at 30 June 2021, the newly increased scale of domestic and overseas mergers and acquisitions finance was RMB40.7 billion, representing an increase of 15 per cent. on a year-on-year basis. The Bank made innovations on the coordinated mechanism for the equity investment business of the Group, launched BoCom Industrial Investment (Hangzhou) Equity Investment Fund (RMB0.9 billion). The Bank was awarded “Outstanding Institution of the Year”, “2020 Wind Best Bond Underwriter” and “2020 Wind Best ABN Underwriter” at the 7th Annual Conference of China Securitisation Forum.

Inclusive loans for small and micro enterprises

The Bank established the “Inclusive e-Loan” comprehensive online financing product system to realise the driving forces of online standardised products and scenario-customised products, improving the capabilities of both business scale and risk control. Relying on digital methods, the Bank optimised the customer service model, promoted “Share + Reward” linked marketing, enhanced the availability and service to inclusive customers and strengthened customer service in key areas.

The Bank strengthened the innovation in the supply chain financial service model, accelerated the development of online factoring, distributor fast lending and other online industrial chain businesses and promoted the expansion of businesses such as Express Pay. Through a scenario-based and industrial chain model, the Bank reinforced the layout and development in key areas including new energy, new infrastructure, low-carbon finance and sci-tech innovation to extend services to upstream and downstream enterprises and provide integrated financing and settlement services.

The Bank optimised its services of sci-tech finance and green finance. The Bank customised financing products with inclusive characteristics for high-quality small and micro sci-tech enterprises, with focus on the development of small and micro enterprises that functioned in the key “bottleneck” technology challenge, to improve the comprehensive financial service capability for small and micro enterprises in the field of science and technology innovation. The Bank established a new concept of “Carbon Inclusive”, formulating personalised financing solutions with special privileges such as carbon emission rights and pollution emission rights, and undertook the first carbon emission right pledge financing business in the Yangtze River Delta region.

As at 30 June 2021, the balance of inclusive loans for small and micro enterprises increased by RMB66.525 billion or 29.3 per cent. over the end of the previous year to RMB293.568 billion. The number of customers with loan balance increased by 35,700 over the end of the previous year to 183,600, representing an increase of 24.13 per cent. The non-performing loan ratio was 1.51 per cent., representing a decrease of 0.67 per cent. over the end of the previous year. For the year ended 31 December 2020, the average interest rate of cumulative loans of the year was 4.02 per cent. As at 30 June 2021, the Bank provided inclusive credit services for clients in 2,773 outlets.

Personal Banking Business

As at 30 June 2021, the balance of personal deposits of the Group increased by 8.72 per cent. over the end of the previous year to RMB2,383,481 million. The balance of personal loans of the Group increased by 6.87 per cent. over the end of the previous year to RMB2,116.957 billion, of which personal mortgage loans increased by 7.23 per cent. over the end of the previous year.

Retail customers and AUM

The Bank focused on government affairs, travel, education, medical care and other livelihood scenarios, upgraded product and service solutions through digital transformation, and improved its capability of scenario-based customer acquisition. The Bank made efforts to consolidate the customer operation system, built a hierarchical and classified operation system covering all customers, and kept scaling up AUM. As at 30 June 2021, the number of retail customers of domestic branches (including debit card and credit card customers) increased by 1.71 per cent. over the end of the previous year to 182 million. The number of qualified customers (customers with quarterly average assets of RMB0.50 million to RMB6.00 million) of OTO Fortune increased by 9.67 per cent. over the end of the previous year to 1,904,800. AUM maintained a rapid growth, where the assets increased by 6.26 per cent. or RMB243.906 billion over the end of the previous year to RMB4,139.472 billion as at 30 June 2021.

Wealth management

The Bank leveraged the Group's advantages in integrated operations while adhering to the principle of "Openness, Best Choice and Customisation", and enriched the variety of wealth management products to build the "OTO Best Choice" product system. For the six months ended 30 June 2021, net wealth management fees and commission income increased by 24.00 per cent. to RMB5.406 billion on a year-on-year basis. The balance of public funds product on consignment increased by 21.32 per cent. over the end of the previous year to RMB289.730 billion. The Bank realised a net income of fund on consignment (including securities dealers and exclusive accounts) of RMB1.897 billion, representing an increase of 100.73 per cent. on a year-on-year basis. The average yield of the "OTO Best Choice" fund kept outperforming the market average. The Bank established a wealth management brand of "OTO Best Choice", built an exclusive wealth management system for different customer segments and promoted the net-worth transformation of wealth management products. As at 30 June 2021, the balance of wealth management products AUM increased by 2.85 per cent. over the end of the previous year to RMB903.97 billion; the net income of wealth management was RMB1.919 billion, representing an increase of 6.21 per cent. on a year-on-year basis. Following up with the trends of the expansion of the middle-income groups and the increasing demand for elderly care services, the Bank vigorously promoted the sales of insurance products such as life support and elderly care. At 30 June 2021, the cumulative sales of insurance products reached RMB13.939 billion and the net income of agency insurance business was RMB1.314 billion, representing an increase of 4.93 per cent. on a year-on-year basis, of which future sales increased by 45.46 per cent. to RMB3.513 billion on a year-on-year basis.

Customer finance

The Bank continued to promote the online and offline integration of personal housing mortgage loans, took good control of housing mortgage limits and sped up asset securitisation. To meet the consumer finance demands in the inclusive finance scenario, the Bank promoted the transformation from cash consumption loans to scenario-based consumption loans. As at 30 June 2021, the Bank's personal housing mortgage loan balance increased by 7.23 per cent. to 1,387.339 billion over the end of the previous year. The cumulative number of applications for Benefit Loan was 6.34 million, and the total loans granted were RMB173.668 billion, which included the newly issued loans of RMB50.908 billion over the year.

Private banking

The Bank increasingly diversified its product categories by launching the first CTA alternative investment strategy wealth management product in the domestic market, private wealth management products, investment trust products, and "TOF" products. The Bank also launched the first charity trust product which was exclusively available to family trust customers with charitable willingness and deepened the connotation of wealth management.

The Bank carried out a reform in the private banking business model and implemented the "1+1+N" customer service model, in which private banking consultants provided services to private banking customers, with professional support from wealth management consultants and expert teams. Guided by the investment and research report while using the asset allocation proposal as a tool, the Bank was able to meet the wealth management demands of private banking customers. As at 30 June 2021, there were 67,500 private banking customers of the Group, representing an increase of 10.46 per cent. over the end of the previous year; the assets of private banking customers under management of the Group were RMB943.762 billion, representing an increase of 13.19 per cent. over the end of the previous year. Major interbank market share of private banking businesses had increased from the end of the previous year.

Bank card businesses

The Bank vigorously expanded quality customers and promoted the digital transformation of customer acquisition. For the six months ended 30 June 2021, the number of new active accounts increased by 84.27 per cent. on a year-on-year basis, and the proportion of quality customers in the new customers saw a year-on-year rise of 9.54 per cent. With a focus on high-quality young customers, the Bank launched a variety of cards themed by celebrities such as Wang Yibo and Luo Tianyi and famous brands such as KPL. Application for more than 0.20 million Wang Yibo themed cards had been made for within 21 days since it went live. In terms of measures to activate the dormant accounts and retain customers, the number of existing active accounts retained increased by 610,400 on a year-on-year basis. As at 30 June 2021, there were 73,770,000 registered domestic credit cards, representing an increase of 1,110,000 over the end of the previous year, within which customers acquired online accounted for 51.48 per cent.

Meanwhile, the Bank strengthened customer management to promote credit card consumption. Through marketing campaigns such as "Super Red Friday", "May 5th Shopping Festival" and "Weekly Swipe", the Bank promoted card binding for mobile payment. For the six months ended 30 June 2021, the cumulative amount of consumption through credit cards was RMB1,451.556 billion, representing a year-on-year increase of 2.62 per cent. In detail, the average consumption of active accounts increased by 4.70 per cent. on a year-on-year basis and the amount of mobile payment transactions increased by 21.96 per cent. on a year-on-year basis. In virtue of precise marketing for targeted customer segments, the balance in instalments increased by 29.43 per cent. on a year-on-year basis. As at 30 June 2021, the credit card overdraft balance in domestic branches was RMB463.242 billion.

The Bank continuously optimised payment products by strengthening cooperation in quick payment with leading Internet platforms and third-party payment platforms, facilitating card binding for third-party payment and raising payment limit. Meanwhile, the Bank reinforced scenario construction, with a focus on online customer acquisition under the inclusive scenarios such as digital government affairs and transportation. For the six months ended 30 June 2021, the number of customers acquired online amounted to 290,200, accounting for 8.36 per cent., with the proportion increased by 5.45 per cent. on a year-on-year basis. The accumulated consumption amounted to RMB1,282.185 billion, representing a year-on-year increase of 49.75 per cent. At 30 June 2021, the accumulated number of debit cards issued amounted to 161.5987 million, representing a net increase of 2,359,700 over the end of the previous year.

Inter-bank and Financial Market Businesses

As at 30 June 2021, the balance of due to and placements from banks and other financial institutions of the Group increased by RMB50.615 billion or 2.83 per cent. over the end of the previous year, which accounted for 17.54 per cent. of total liabilities and represented a decrease of 0.66 per cent. over the end of the previous year; the financial investment of the Group reached RMB3,352.666 billion, representing an increase of 3.56 per cent. over the end of the previous year.

Inter-Bank Businesses

As at 30 June 2021, due to and placement from banks and other financial institutions accounted for 8.84 per cent. of total liabilities, representing a decrease of 0.38 per cent. over the end of the previous year. The balance of Renminbi demand deposits of domestic banks was RMB650.805 billion, accounting for 71.45 per cent. of Renminbi interbank deposits of domestic banks, representing an increase of 2.1 per cent. on a year-on-year basis.

The Bank supported the construction of Shanghai as an international financial centre. The Bank continuously optimised futures and securities settlement systems and strengthened customer expansion, making it a market leader in the scale of securities and futures settlement. Meanwhile, the Bank followed the business innovation of Shanghai Clearing House, and rolled out the first batch of clearing business for the cash commodities, with the volume of major agent clearing products such as foreign exchange, RMB interest rate swaps and standard bond forwards ranking first in the market. For the six months ended 30 June 2021, the average balance of demand deposits of financial factor market was RMB206.176 billion, representing an increase of RMB22.488 billion over the previous year.

The Bank made more efforts in serving the real economy. Through an upgrade of the original interbank platform to BoCom e-Platform on which services such as wealth management, payment and settlement, trade finance and capital transactions were available to interbank customers, the Bank rendered its financial services to cities, counties and rural areas. As at 30 June 2021, there were 1,680 interbank customers in cooperation with BoCom e-Platform, representing an increase of 130 from the beginning of the year. The Bank expanded customers indirectly involved in Cross-border Renminbi Interbank Payment System (CIPS) and supported the development of cross-border Renminbi interbank payment business. The Bank promoted the CIPS standard transmit product to improve the efficiency of cross-border Renminbi interbank payment. As at 30 June 2021, the number of customers indirectly involved in CIPS ranked fourth in the market and the number of customers adopting the standard transmit product ranked first in the market. In addition, the Bank strengthened the cooperation with securities and futures companies. As at 30 June 2021, the Bank accomplished the integration of third-party depository management system with 105 securities companies, achieving cooperation with 98 per cent. of securities company customers, accomplished the integration of financing and securities depository management system with 91 securities companies, achieving cooperation with 96 per cent. of securities company customers, and accomplished the integration of bank-futures transfer system with 147 futures companies, achieving cooperation with 98 per cent. of futures company customers.

Financial Market Businesses

The scale of financial investments grew steadily. The Bank actively played its role in market making, quotation and trading to support the steady operation of financial market and the steady growth in investment scale. For the six months ended 30 June 2021, the trading volume in Renminbi money market of domestic branches amounted to RMB33.8 trillion; the trading volume in foreign currency market amounted to U.S.$841.6 billion; the trading volume of Renminbi bonds amounted to RMB1.84 trillion; the trading volume in interbank foreign exchange market amounted to U.S.$1.37 trillion; the trading volume of self-operated gold amounted to 2,189 tons, maintaining its market position as an active trading bank.

The Bank followed up the construction of Renminbi financial assets allocation and risk management centre of Shanghai, successfully issued the first foreign currency interbank deposit in the market, concluded the first-day transaction of multiple foreign exchange derivatives in the interbank market and became an X-Swap (an electronic transaction system for interest rate swaps) bridging agency and a quotation agency for interest rate options.

The Bank invested more in central and local government bonds, strengthened its support of bond investment businesses to the operation and development of enterprises and actively participated in the bond business of the Free Trade Zone. For six months ended 30 June 2021, the Bank invested in RMB0.3 billion bonds issued by enterprises in the China (Shanghai) Pilot Free Trade Zone. To serve the demands of enterprises for risk avoiding and value preservation, the Bank completed designated RMB interest rate swap transactions amounting to RMB10.015 billion for the six months ended 30 June 2021.

The Bank made efforts to accelerate the global capital integration and to improve the quality and effectiveness of fund operation and management of overseas branches. The Bank completed the second phase of the foreign exchange and interest rate trading business system construction of the Asia-Pacific capital platform, and concentrated US Dollar and offshore Renminbi funds of seven Asia-Pacific overseas branches in Tokyo, Singapore, Seoul and other regions, centralising the business operation of securities issuance and investment, money market transactions, foreign exchange transaction and derivatives close-out settlement with the international market.

Asset Custody

The Bank deepened its cooperation with asset management institutions and vigorously developed various custody businesses. By seizing development opportunities in the capital markets and strengthening cooperation with quality fund companies, the Bank screened out quality products and accelerated its layout of the equity-based public funds custody businesses. Focusing on protection of people's livelihood and centring on three pillars of pension, the Bank expanded the market, optimised its services and continuously strengthened its pension custody businesses. By providing custody services for businesses such as insurance debts plans and trust plans, the Bank supported the development of the real economy. By seizing policy opportunities like the connectivity of cross-border financial markets, the Bank promoted the development of cross-border custody businesses. As at 30 June 2021, the assets under custody reached RMB11.06 trillion, representing an increase of 7.10 per cent. over the end of the previous year.

Wealth Management Business

In response to people's demands for wealth management, the Bank promoted the development of wealth finance features and strengthened cooperation with sales agencies outside the Bank, resulting in a continuous rise in the scale of asset management products. For the six months ended 30 June 2021, the average balance of off-balance sheet asset management products of the Group reached RMB1,161.404 billion, representing an increase of 6.18 per cent. or RMB67.570 billion over the previous year. As at 30 June 2021, the scale of net-worth wealth management products of the Group reached RMB821.011 billion, accounting for 71.32 per cent. of the Group's off-balance sheet asset management products, representing an increase of 9.74 per cent. over the end of the previous year.

INTEGRATED OPERATION

For the six months ended 30 June 2021, net profit attributable to shareholders of the Bank from the subsidiaries amounted to RMB4.928 billion, representing a year-on-year increase of 49.11 per cent., the proportion of which to the Group's net profit increased by 2.68 per cent. to 11.73 per cent. on a year-on-year basis. The total assets of the subsidiaries increased by 8.52 per cent. over the end of the previous year to RMB537.878 billion, the proportion of which to the total assets of the Group increased by 0.08 per cent. to 4.71 per cent. over the end of the previous year.

The Group established a coordinative development pattern of commercial banking businesses as the body, along with other businesses including financial leasing, fund, wealth management, trust, insurance, and debt to equity swap, further improving the capability of comprehensive services.

Major Subsidiaries

BoCom Leasing

As the Bank's wholly-owned subsidiary, BoCom Leasing was set up in December 2007 with a registered capital of RMB14.0 billion. The main business scope includes financing leases and operating leases in sectors such as aviation, shipping and energy power, transportation infrastructure, equipment manufacturing and livelihood services. For the six months ended 30 June 2021, BoCom Leasing adhered to the development strategies of "Professionalism, Internationalisation, Differentiation and Characteristics", deeply engaged in aviation, shipping, traditional financing leasing and other businesses. As at 30 June 2021, BoCom Leasing's main indicators such as total assets and balance of leasing assets ranked first among domestic financial leasing companies, among which total assets and net assets were RMB330.542 billion and RMB33.794 billion respectively, and the balance of leasing assets amounted to RMB284.767 billion, indicating an increase of 5.95 per cent. over the end of the previous year. Total assets of aircraft and ship amounted to RMB170.302 billion, with fleets of 271 planes and 392 ships. BoCom Leasing's net profit for the six months ended 30 June 2021 was RMB1.746 billion, representing an increase of 10.3 per cent. on a year-on-year basis. BoCom Leasing was elected as the Fifth Chief Administration Unit of China Banking Association (CBA) Financial Leasing Committee.

BoCom International Trust

BoCom International Trust was set up in October 2007 with a registered capital of RMB5.765 billion, of which the Bank and Hubei Provincial Communications Investment Group Co., Ltd. contributed 85 per cent. and 15 per cent. stock rights respectively. The main business scope includes trust loans, investment funds trusts, accounts receivable financing, real estate trusts, family trusts, charitable trusts, credit asset securitisation, corporate asset securitisation, qualified domestic institutional investor (QDII), and private equity investment trusts. For the six months ended 30 June 2021, with the strategic goal of "building the most trustworthy first-class trust company", BoCom International Trust focused on four strategic pillar businesses including private investment banking, securities investment, wealth management and fiduciary services, to return to the essence of trust and serve the real economy. The company has been rated as Level A (the highest level) for six consecutive years since the China Trustee Association launched the industry rating and has won the Excellent Trust Company Award named "Cheng Xin Tuo" granted by the Shanghai Securities News. As at 30 June 2021, the total assets, net assets and the AUM of BoCom International Trust were RMB16.834 billion, RMB13.829 billion and RMB622.409 billion respectively. BoCom International Trust's net profit for the six months ended 30 June 2021 was RMB0.586 billion.

BoCom Schroder Fund

BoCom Schroder Fund was set up in August 2005 with a registered capital of RMB0.2 billion. BoCom Schroder Fund was jointly contributed by the Bank, Schroder Investment Management Limited and China International Marine Containers (Group) Co., Ltd., with the stock rights accounting for 65 per cent., 30 per cent. and 5 per cent. respectively. The primary businesses include fund raising, fund sales and asset management. The yield of equity investment under active management ranked third (3/82) in the industry in the past five years and twelfth (12/102) in the past three years. The rate of return of five fund products in the past five years was more than 200 per cent., while the rate of return of 18 fund products in the past three years was more than 100 per cent. As at the 30 June 2021, BoCom Schroder Fund's total assets and net assets were RMB6.285 billion and RMB4.915 billion respectively, and the public fund under management reached RMB429.1 billion, representing an increase of 26 per cent. over the end of the previous year. BoCom Schroder Fund's net profit for the six months ended 30 June 2021 was RMB0.977 billion, representing an increase of 96 per cent. on a year-on-year basis.

BOCOM Wealth

As a wholly-owned subsidiary of the Bank, BOCOM Wealth was set up in June 2019 with a registered capital of RMB8.0 billion. It primarily issues wealth management products of fixed income, equity, commodities, financial derivatives and hybrid categories to personal, private banking, institutional and interbank customers. As a core vehicle for the Group to build up wealth management characteristics, a core supplier of wealth management products and an integrated platform for innovation and development of the wide asset management business, BOCOM Wealth actively expanded consignment agencies outside the Bank, and the balance of products sold under consignment outside the Bank reached RMB176.411 billion, accounting for 17.13 per cent. of the balance of products. In addition, the scope of sales on consignment outside the Bank ranked first among wealth management subsidiaries. BOCOM Wealth gave full play to its wealth management expertise, closely focused on the development of the leading bank in the Yangtze River Delta, selected high-quality assets in the Yangtze River Delta, and shared the benefits of regional integrated development, and the Boxiang Yangtze

River Delta Value Investment product series were highly recognised by customers. As at 30 June 2021, BOCOM Wealth's total assets and net assets were RMB9.603 billion and RMB9.357 billion respectively. The company's net profit for the six months ended 30 June 2021 was RMB0.606 billion, indicating an increase of 99.47 per cent. on a year-on-year basis. The scale of wealth management products saw a continuous growth.

BoCommLife

BoCommLife was set up in January 2010 with a registered capital of RMB5.1 billion, of which the Bank and the MS&AD Insurance Group contributed 62.50 per cent. and 37.50 per cent. stock rights respectively. The business scope includes life insurance, health insurance, accident insurance and reinsurance businesses of the aforementioned insurances in Shanghai as well as regions where its branches were established. For the six months ended 30 June 2021, with the strategic goal of "becoming a company with a leading position in growth and profitability of guaranteed insurance", BoCommLife was committed to providing insurance guarantee, highlighted distinctive operation and maintained a stable business performance with good development momentum. As at 30 June 2021, BoCommLife's total assets and net assets were RMB87.004 billion and RMB7.184 billion respectively. For the six months ended 30 June 2021, the original premium income was RMB11.4 billion, representing an increase of 0.12 per cent. on a year-on-year basis. The net profit was RMB0.604 billion, representing an increase of 31.44 per cent. on a year-on-year basis, and the value of new business increased by 56.46 per cent. on a year-on-year basis.

BOCOM Financial Asset Investment

As a wholly-owned subsidiary of the Bank, BOCOM Financial Asset Investment was set up in December 2017 with a registered capital of RMB10.0 billion. As one of the first pilot banks to implement debt-to-equity conversion as determined by the State Council, BOCOM Financial Asset Investment is mainly engaged in debt-to-equity conversion and supporting services. For the six months ended 30 June 2021, BOCOM Financial Asset Investment made efforts to develop the main business of market-oriented debt-to-equity swap, and actively reduced leverage ratio and controlled risks to serve the real economy. As at the end of 30 June 2021, BOCOM Financial Asset Investment's total assets and net assets were RMB49.935 billion and RMB12.060 billion respectively. BOCOM Financial Asset Investment's net profit for the six months ended 30 June 2021 was RMB0.703 billion, representing an increase of 259.97 per cent. on a year-on-year basis. As at 30 June 2021, BOCOM Financial Asset Investment held a total of 69 historical and incremental projects, with the total investment amount of RMB41.459 billion.

BoCom International Holdings

BoCom International Holdings was set up on June 1998 (formerly known as Communications Securities Co., Ltd. and changed its name to BOCOM International Holdings Company Limited in May 2007). It was listed on the main board of Hong Kong Stock Exchange on 19 May 2017. As at the end of 30 June 2021, the Bank's shareholding in BoCom International Holdings was 73.14 per cent. The main business of BoCom International Holdings includes securities brokerage and margin financing, corporate financing and underwriting, asset management and consulting, investment and loan. For the six months ended 30 June 2021, BoCom International Holdings adopted the business strategy of "highlighting the businesses in Yangtze River Delta and Pearl River Delta, focusing on two fields of the industry and achieving transformation with intelligent and digital technologies", ploughed into fields of new economy and activated new growth drivers for diversified businesses, providing customers with comprehensive financial services of the integrated industrial chain. The number of IPO projects underwritten ranked among top five in the Hong Kong market, the number of Chinese-funded offshore bonds underwritten ranked among top three in the Hong Kong market, and the performance of Hong Kong stock public fund issued and managed by the company ranked first among similar funds in the Hong Kong market. As at the end of 30 June 2021, BoCom International Holdings's total assets and net assets were HKD30.638 billion and HKD8.082 billion respectively. BoCom International Holdings's net profit for the six months ended 30 June 2021 was HKD0.572 billion, representing an increase of 105 per cent. on a year-on-year basis.

BoCom Insurance

As a wholly-owned subsidiary of the Bank, BoCom Insurance was set up in November 2000 with a registered capital of HKD0.4 billion. The main business was the operation of 17 types of general insurances approved by the Insurance Authority of Hong Kong. For the six months ended 30 June 2021, BoCom Insurance gave full play to the advantage of holding a full business license for general insurances, and improved the quality and efficiency of its main underwriting business simultaneously. As at 30 June 2021, BoCom Insurance's total assets and net assets were HKD0.822 billion and HKD0.577 billion respectively. BoCom Insurance's net profits for the six months ended 30 June 2021 were HKD6.60 million, representing a year-on-year increase of 0.3 per cent. The gross premiums increased by 11.11 per cent., premium profits before expenditure increased by 27.16 per cent. on a year-on-year basis and the net compensation rate was 11.30 per cent.

GLOBAL SERVICE CAPABILITIES

The Group formed an overseas operating network covering major international financial centres across five continents, and had 23 overseas branches (sub-branches) and representative offices in 18 countries and regions, with 69 overseas operating outlets. For the six months ended 30 June 2021, net profit of overseas banking institutions of the Group increased by 6.20 per cent. on a year-on-year basis to RMB3.509 billion, whose contribution to the Bank's total net profit increased by 0.55 per cent. to 8.35 per cent. on a year-on-year basis. The total assets of overseas banking institutions of the Group decreased by 3.74 per cent. over the end of the previous year to RMB1,194.599 billion, whose contribution to the Bank's total assets decreased by 1.13 per cent. to 10.47 per cent. over the end of the previous year.

Hong Kong Branch

Established in 1934, Bank of Communications Co., Ltd. Hong Kong Branch (the "**Hong Kong Branch**") is the Bank's largest overseas branch. In addition to foreign exchange deposits, foreign exchange loans and international settlement services, the Hong Kong Branch also provides non-banking services through its subsidiaries.

The Hong Kong Branch has placed an increasing emphasis on serving personal finance customers. For corporate finance operations, the Bank's Hong Kong Branch targets, among others, listed companies and large PRC state-owned enterprises. In addition, the Hong Kong Branch also actively participates in the syndicated loan market. In addition to generating interest income, the Hong Kong branch continues to focus on generating fee income. The Hong Kong Branch provides a variety of fee-based products and services.

On 29 January 2018, the Bank established Bank of Communications (Hong Kong) Limited in order to expand and intensify the Bank's retail and private banking business. The activities, assets and liabilities which constitute the retail and private banking businesses of the Hong Kong Branch of the Bank were transferred to the Bank of Communications (Hong Kong) Limited.

Other overseas branches

Other overseas branches and subsidiaries as at 31 December 2020 were:

- The Bank's New York branch commenced operation in November 1991.
- The Bank's Tokyo branch commenced operation in December 1995.
- The Bank's Singapore branch commenced operation in September 1996.
- The Bank's Seoul branch commenced operation in August 2005.

- The Bank's Frankfurt branch commenced operation in October 2007.
- The Bank's Macau branch commenced operation in November 2007.
- The Bank's Ho Chi Minh City branch commenced operation in February 2011.
- The Bank's London branch commenced operation in November 2011.
- The Bank's Sydney branch commenced operation in November 2011.
- The Bank's San Francisco branch commenced operation in November 2011.
- The Bank's Taipei branch commenced operation in July 2012.
- The Bank's representative office in Toronto was opened in November 2014.
- The Bank's tier-2 branch in Brisbane commenced operation in April 2015.
- The Bank's subsidiary in Luxembourg commenced operation in May 2015.
- The Bank's subsidiary's branch in Paris commenced operation in November 2016.
- The Bank's subsidiary's branch in Rome commenced operation in November 2016.
- Banco BBM S.A. became a non-wholly owned subsidiary of the Bank in November 2016.
- The Bank's tier-2 branch in Melbourne commenced operation in December 2018.
- The Bank's Prague branch commenced operation in May 2019.
- The Bank's Johannesburg branch commenced operation in November 2020.

International settlement and trade financing

The Bank implemented the requirements of trade facilitation, perfected online product system, expanded business processing channels and improved service intelligence levels. The Bank supported new forms of foreign trade, extensively served customers on cross-border e-Commerce platforms, integrated foreign trade service platforms and market procurement trade platforms to meet various customer segments' cross-border financial demands of being personalised, scenario-based and comprehensive. For the six months ended 30 June 2021, the Bank continuously improved the capability of serving the real economy, and the balance of international payments reached U.S.$230.455 billion, representing an increase of 52.72 per cent. on a year-on-year basis. The volume of trade financing for cross-border trade increased by 27.20 per cent. on a year-on-year basis to U.S.$17.225 billion.

Overseas service network

The Group had 23 overseas branches (sub-branches) and representative offices in places including Hong Kong, New York, London, Singapore, Tokyo, Frankfurt, Luxembourg and Sydney, providing customers with financial services including deposits, loans, international settlement, trade financing and foreign currency exchange. The Group established overseas banking service network with 997 banks in 125 countries and regions, set up 243 cross-border Renminbi interbank accounts for 106 overseas Renminbi participating banks in 31 countries and regions. In addition, 81 foreign currency settlement accounts in 26 major currencies were opened in 62 banks in 31 countries and regions.

Cross-border Renminbi transactions

The Bank actively facilitated the construction of cross-border Renminbi payment scenarios and completed the first market launch of CIPS standard transmit product (enterprise version), so as to improve the efficiency of cross-border payment while facilitating a fast and convenient experience of cross-border payment and collection. The Group strengthened its domestic and overseas collaboration, and the volume of cross-border transfer of domestic trade financing assets in the first half of 2021 amounted to RMB32.767 billion, representing an increase of 504 per cent. on a year-on-year basis. For the six months ended 30 June 2021, the volume of cross-border Renminbi settlement of domestic banking institutions reached RMB604.196 billion, representing an increase of 60.89 per cent. on a year-on-year basis.

Offshore services

The Bank accelerated the integrated development of offshore and onshore businesses as well as the integrated operation of non-resident accounts, and fully explored the business potentials of the integration of Yangtze River Delta and Lin-Gang Special Area of Shanghai Pilot Free Trade Zone. As at the end of 30 June 2021, the asset balance of offshore business increased by U.S.$2.529 billion or 21.53 per cent. over the end of the previous year to U.S.$14.273 billion.

MARKETING

The Bank develops specific marketing strategies for both corporate and personal banking clients. The Bank's head office organises bank-wide marketing and provides supporting resources for local marketing efforts formulated and coordinated by the Bank's branches. The Bank's sub-branches are responsible for the implementation of local marketing plans.

The Bank has created marketing strategies based on region, customer size and product type. The Bank focuses its advertising spending on television advertising, outdoor billboards, and to a lesser extent, internet, print and radio advertising. Regionally, in addition to continuing to focus on the Yangtze River Delta, Pearl River Delta, and Bohai Rim Economic Zone regions, the Bank pays specific attention to other economic zones and projects, such as Shanghai's "Two Centres" plan to develop into an international financial and shipping centre. The Bank also develops marketing strategies based on customer segmentation. The Bank intends to continue to strengthen branding efforts for the specific products it offers. For example, the Bank will continue to promote its personal banking business service brand of "OTO Fortune" (沃德財富), "OTO Financial Advisor" (沃德理財顧問) and "My Account Manager" (我的管家), and corporate business service brand of "Win to Fortune" (蘊通財富), as well as promote more customised and comprehensive wealth management solutions and product combinations under those brands and gradually position its brand as the "wealth management bank".

INFORMATION TECHNOLOGY

The Bank's information technology systems are integral to the Bank's business operations, including its customer services, transaction processing, risk management and financial management. The Bank believes that the establishment of advanced information technology systems complement its overall business strategies and will greatly improve its operational efficiency and the quality of its customer services as well enhance its risk and financial management capabilities. The Bank has invested and will continue to make profound investments in promoting its information technology systems.

The Bank expects to increasingly leverage information technology to drive its business in the future. In addition to the upgrades and improvements the Bank has made in recent years to its information technology systems, the Bank will continue to upgrade and integrate its information technology systems to facilitate operational efficiency, risk management and business development.

EMPLOYEES

As at 30 June 2021, the Group had a total of 89,890 employees, of whom 83,945 employees were based in domestic banking institutions and 2,610 were local employees in overseas branches. There were 3,335 employees in total working for the Bank's subsidiaries.

INTELLECTUAL PROPERTY

The Bank conducts business under the brand names and logos of "交通銀行", "太平洋卡", "Bank of Communications" "蘊通財富 WINTOFORTUNE", "沃德 OTO", "交銀沃德", "BOCOM FORTUNE", "交銀理財" and "得利寶". The Bank has registered, or is in the process of applying for registration or renewal of, these brand names and logos and other related logos in the PRC and Hong Kong. The Bank is also the registered owner of the domain name "www.bankcomm.com".

LEGAL AND REGULATORY PROCEEDINGS

The Group has been involved as defendants in certain lawsuits arising from its normal business operations. Management of the Group believes, based on legal advice, the final result of these lawsuits will not have a material impact on the financial position or operations of the Group. In 2020, the Group was not involved in any material litigation and arbitration. As at 30 June 2021, the Group was involved in certain outstanding litigations/arbitrations as defendant or third party with an amount of approximately RMB3.075 billion. The Bank believes that there is sufficient provision for current and pending litigations and arbitrations against the Bank or its branches. Even if any judgment or award of the said current and pending litigations or arbitrations against the Bank or its branches is adverse to the Bank, the Bank does not anticipate that any such cases (individually or jointly) would have a material adverse impact on the Bank's financial condition or results of operations.

PROPERTIES

The address of the headquarter of the Bank is No.188 Yincheng Zhong Road, Pudong New District, Shanghai, China. As at 31 December 2020, the Group had 245 domestic branches, including 37 branches at provinces, autonomous regions or municipalities level or directly-managed level and 208 branches managed by branches at provinces, autonomous regions or municipalities level, most of which are concentrated in the Yangtze River Delta, Pearl River Delta and Bohai Rim Economic Zone, as well as large cities in other areas. As at 30 June 2021, in addition to its PRC operations, the Bank had branches or subsidiaries which are located in Hong Kong, New York, San Francisco, Tokyo, Singapore, Seoul, Frankfurt, Macau, Ho Chi Minh City, Sydney, Brisbane, Melbourne, Taipei, London, Luxembourg, Paris, Rome, Brazil, Prague and Johannesburg, and its representative office in Toronto commenced operations in November 2014.

DESCRIPTION OF THE BANK'S ASSETS AND LIABILITIES

The section in the Original Offering Circular entitled **"*DESCRIPTION OF THE BANK'S ASSETS AND LIABILITIES*"** is deemed to be deleted in its entirety and replaced as follows:

Assets

The Bank's total assets as at 30 June 2021 were RMB11,413,960 million, which represents an increase of 6.70 per cent. from RMB10,697,616 million as at 31 December 2020. The Bank's total assets as at 31 December 2020 were RMB10,697,616 million, which represents an increase of 8.00 per cent. from RMB9,905,600 million as at 31 December 2019. The four principal components of the Bank's assets consist of cash and balances with central banks, due from other banks and financial institutions, derivative financial assets and loans and advances to customers. As at 30 June 2021, the balance of the Bank's loans and advances to customers, financial investment, cash and balances with central banks, amounts due from banks and other financial institutions, and others constituted 54.39 per cent., 29.37 per cent., 7.10 per cent., 6.24 per cent. and 2.90 per cent., respectively, of its total assets. The following table sets forth the balances of significant components of the Bank's total assets as at the dates indicated:

	As at 31 December			As at 30 June
	2018	2019	2020	2021
		(RMB in million)		
Cash and balances with central banks	840,171	760,185	817,561	810,320
Due from banks and other financial institutions	848,067	648,488	571,130	712,370
Derivative financial assets	30,730	20,937	54,212	35,584
Loans and advances to customers	4,742,372	5,183,653	5,720,568	6,208,293
Financial investments at fair value through profit or loss	376,386	406,498	482,588	575,837
Financial investments at amortised cost	2,000,505	1,929,689	2,019,529	2,050,282
Financial investments at fair value through other comprehensive income	445,018	669,656	735,220	726,547
Investments in associates and joint venture	3,653	4,600	4,681	5,505
Property and equipment	153,286	171,179	169,471	167,054
Deferred income tax assets	21,975	24,065	27,991	29,119
Other assets[(1)]	69,008	86,650	94,665	93,049
Total assets	9,531,171	9,905,600	10,697,616	11,413,960

Note:

(1) Other assets consist of interest receivable, settlement accounts, other receivables and prepayments, investment properties, land use rights and others, intangible assets, long-term deferred expenses, precious metal, foreclosed assets, goodwill, refundable deposits, unsettled assets etc.

As at 30 June 2021, the Bank's capital position is among the best in the industry, its Core Tier 1 Capital Adequacy Ratio, Tier 1 capital adequacy ratio and capital adequacy ratio being 10.59 per cent., 13.11 per cent. and 15.29 per cent., respectively.

Loans and Advances to Customers

As at 31 December 2020, the Bank's corporate loans and personal loans represented approximately 66.13 per cent. and 33.87 per cent., respectively, of its total gross loans and advances to customers. While the Bank's corporate banking business remains its core banking business, the Bank believes that the PRC personal banking sector continues to offer significant growth opportunities. As part of the Bank's growth strategy, the Bank has taken, and will continue to take, various initiatives to enhance its personal banking business. As at 30 June 2021, the Bank's personal loans reached RMB2,116,957 million, representing an increase of RMB136.075 million or 6.87 per cent. compared to 31 December 2020.

Unless otherwise stated, all amounts of corporate loans, personal loans and discounted bills set forth in this section represent amounts before impairment allowance.

The Bank's loans and advances to customers (after impairment allowances) represent a significant portion of its assets and accounted for 54.39 per cent. of its total assets as at 30 June 2021. The balance of the Bank's loans and advances to customers net of allowance for impairment losses increased by 8.53 per cent. to RMB6,208,293 million as at 30 June 2021 from RMB5,720,568 million as at 31 December 2020.

Corporate Loan Concentration by Industry

The Bank's corporate loan portfolio represents a broad range of industries, but is concentrated in particular in the transportation, storage and postal services, manufacturing, leasing and commercial services, water conservancy, environmental and other public services and real estate sectors. The following table sets forth the Bank's corporate loan portfolio by industry and as a percentage of its loan portfolio as at the dates indicated:

	31 December 2018		**31 December 2019**		**31 December 2020**		**30 June 2021**	
	Amount	*% of total*	*Amount*	*% of total*	*Amount*	*% of total*	*Amount*	*% of total*
	(RMB in million, except percentages)							
Corporate loans	3,061,095	63.08	3,346,476	63.09	3,707,471	63.39	4,059,876	63.96
Transportation, storage and postal services	573,151	11.82	637,943	12.03	708,649	12.12	757,552	11.94
Manufacturing	581,412	11.98	601,143	11.33	658,203	11.25	708,217	11.16
Leasing and commercial services	413,716	8.52	508,863	9.59	577,500	9.87	649,188	10.23
Water conservancy, environmental and other public services	263,235	5.42	284,797	5.37	334,399	5.72	374,929	5.91
Real estate	216,536	4.46	264,495	4.99	348,185	5.95	382,381	6.02
Wholesale and retail	246,706	5.08	221,381	4.17	204,856	3.50	214,175	3.37
Production and supply of electric power, heat, gas and water	186,117	3.83	215,642	4.07	221,313	3.78	241,298	3.80
Construction	114,577	2.36	135,998	2.56	135,732	2.32	169,975	2.68
Mining	119,091	2.45	117,555	2.22	125,367	2.14	131,771	2.08
Finance sector	98,342	2.03	107,865	2.03	118,702	2.03	148,399	2.34
Education, science, culture and public health	89,436	1.84	96,875	1.83	112,961	1.93	120,884	1.90
Others	96,428	1.99	93,314	1.76	85,570	1.48	80,103	1.26

	31 December 2018		31 December 2019		31 December 2020		30 June 2021	
	Amount	*% of total*	*Amount*	*% of total*	*Amount*	*% of total*	*Amount*	*% of total*
	(RMB in million, except percentages)							
Accommodation and catering	34,486	0.71	32,259	0.61	34,886	0.60	33,744	0.53
Information transmission, software and information technology services	28,682	0.59	28,346	0.53	41,148	0.70	47,260	0.74
Personal loans	1,635,627	33.69	1,754,765	33.08	1,980,882	33.87	2,116,957	33.36
Discounted bills	156,686	3.23	203,034	3.83	160,071	2.74	169,870	2.68
Total	4,854,228	100.00	5,304,275	100.00	5,848,424	100.00	6,346,703	100.00

In accordance with the disclosure standards in the published audited consolidated financial statements as at and for the year ended 31 December 2020, loans to the transportation, storage and postal services, manufacturing, leasing and commercial services, water conservancy, environmental and other public services and real estate generally account for a significant portion of the Bank's corporate loans. In the aggregate, they accounted for approximately 44.91 per cent. of the Bank's total loans as at 31 December 2020. As at 31 December 2020, the total amount of the Bank's outstanding corporate loans increased by RMB352.405 billion or 9.51 per cent. from RMB3,707,471 million as at 31 December 2020 to RMB4,059,876 million. The Bank offers bill discounting by providing its customers with cash for their bills of exchange accepted by other financial institutions as well as corporations. Discounted bills represented 3.83 per cent., 2.74 per cent. and 2.68 per cent. of the Bank's gross loans and advances balance as at 31 December 2019, 2020 and 30 June 2021, respectively. Discounted bills increased by 6.12 per cent. from RMB160,071 million as at 31 December 2020 to RMB169,870 million as at 30 June 2021.

Personal Banking Loan Concentration by Product

The Bank's personal finance loan portfolio consists primarily of mortgage loans, credit card advances and others. The following table sets forth the Bank's personal finance loan portfolio by products and as a percentage of its personal finance loan portfolio as at the dates indicated:

	31 December 2018		31 December 2019		31 December 2020		30 June 2021	
	Amount	*% of total*	*Amount*	*% of total*	*Amount*	*% of total*	*Amount*	*% of total*
	(RMB in million, except percentages)							
Mortgage	1,007,528	61.60	1,135,428	64.70	1,293,773	65.31	1,387,339	65.53
Credit card	505,190	30.89	467,387	26.64	464,110	23.43	463,340	21.89
Personal business loans	31,871	1.95	55,560	3.17	120,985	6.11	161,858	7.65
Others(1)	91,038	5.56	96,390	5.49	102,014	5.15	104,420	4.93
Total personal loans	1,635,627	100.00	1,754,765	100.00	1,980,882	100.00	2,116,957	100.00

Note:

(1) "Others" include, among others, medium-term and long-term working capital loans, short-term working capital loans, car loans, education loans, durable consumer goods loans, refurbishing loans, pledge of certificates of deposit to small-sized loans and small-sized secured loans to the unemployed.

The total amount of the Bank's outstanding personal loans increased by RMB136,075 million or 6.87 per cent. per cent. from RMB1,980,882 million as at 31 December 2020 to RMB2,116,957 million as at 30 June 2021. The Bank's personal loans represented 33.87per cent. and 33.36 per cent. of its gross loans and advances as at 31 December 2020 and 30 June 2021, respectively.

Mortgage loans represented 65.31 per cent. of the Bank's personal loans as at 31 December 2020. The Bank's mortgage loans increased 7.23 per cent. to RMB1,387, 339 million as at 30 June 2021 from RMB1,293,773 million as at 31 December 2020. The Bank has expanded its mortgage loan business while controlling risks by focusing on economically developed regions and well-regulated markets.

As at 31 December 2019, 2020 and 30 June 2021, the Bank's credit card advances were RMB467,387 million, RMB464,110 million and RMB463,340 million, respectively, which represented 26.64 per cent., 23.43 per cent. and 21.89 per cent., respectively, of its total personal loans. As at 31 December 2020, there were 72.66 million registered domestic credit cards, within which customers acquired online accounted for 54.69 per cent.

Maturity of Loans

When a short-term loan is renewed following repayment within the credit term of the loan, no re-application for a credit line is required, provided such loan is drawn in accordance with relevant rules and within the effective credit line. Upon expiration of the credit term of a loan, a borrower must re-apply for a new loan, subject to the Bank's standard credit approval procedures. The interest rates for the Bank's Renminbi-denominated loans and advances are regulated by the PBOC, and banks have discretion to determine the interest rates for Renminbi-denominated loans and advances within a permitted range. The interest rate for discounted bills is determined with reference to the PBOC market re-discount interest rate.

Borrower Concentration

Under the current PRC banking regulations, the aggregate amount of the Bank's loan exposure to any single borrower may not exceed 10 per cent. of its net capital. The Bank is currently in compliance with this regulatory requirement.

Loan Concentration by Geographical Location

The following table sets forth the geographic distribution of the Bank's gross loans and advances as at the dates indicated:

	As at 31 December		As at 30 June
	2019	2020	2021
		(RMB in million)	
Yangtze River Delta	1,434,280	1,576,465	1,740,449
Pearl River Delta	572,226	701,865	795,832
Bohai Rim Economic Zone	740,248	831,454	919,712
Central China	827,110	958,527	1,031,618
Western China	585,712	680,088	732,604
North Eastern China	212,871	232,864	241,802
Overseas	391,517	359,368	378,425

	As at 31 December		As at 30 June
	2019	2020	2021
	(RMB in million)		
Head office [1]	540,311	507,793	506,261
Total	5,304,275	5,848,424	6,346,703

Note:

(1) Head Office included the Pacific Credit Card Centre.

The Bank's business is concentrated on the economically developed areas of China. As at 30 June 2021, the Bank's loans and advances to customers from Yangtze River Delta, Pearl River Delta, Bohai Rim Economic Zone and Central China accounted for 27.42 per cent., 12.54 per cent., 14.49 per cent. and 16.25 per cent., respectively, of its total loans and advances to customers.

LOAN QUALITY

The Bank measures and monitors the asset quality of the Bank's loan portfolio through its loan classification system. The Bank classifies its loans using a five-category loan classification system, which complies with the applicable regulatory guidelines.

The Bank intends to continue to improve its loan quality and to generate stable profits while maintaining its credit risk exposure within acceptable parameters through a diversified loan portfolio. The Bank has established an integrated credit risk management system with comprehensive policies and procedures to identify, measure, monitor and control credit risk across its organisation. See the section headed "Risk Management and Internal Control".

Impaired loans are a concept under IFRS, which has been adopted by the Bank in the preparation of its financial statements set forth in the Original Offering Circular. A loan is impaired if there is objective evidence that the Bank will not be able to collect all amounts due according to the original contractual terms of such loan. Non-performing loan is used to refer to a loan that is classified as "substandard", "doubtful" or "loss" under the five-category loan classification system established by the CBIRC.

Overdue loans are (1) for loans with a specific expiry date – these loans should be treated as overdue where the principal or interest is overdue and remains unpaid as at the reporting date; (2) for loans with regular instalments – these loans should be treated as overdue when an instalment payment is overdue and remains unpaid as at the reporting date.

Provision for Impairment Losses on Loans and Advances to Customers

For the year ended 31 December 2017, for a financial asset that is individually significant, the Group assesses the asset individually for impairment. For a financial asset that is not individually significant, the Group assesses the asset individually for impairment or includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset (whether significant or not), it includes the asset in a group of financial assets with similar credit risk characteristics and collectively reassesses them for impairment. Assets for which an impairment loss is individually recognised are not included in a collective assessment of impairment.

If financial assets carried at amortised cost are impaired, the carrying amounts of the financial assets are reduced to the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The amount of reduction is recognised as an impairment loss in profit or loss and is recorded through the use of an allowance account. When a financial asset is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss. If, subsequent to the recognition of an impairment loss on financial assets carried at amortised cost, there is objective evidence of a recovery in value of the financial assets which can be related objectively to an event occurring after the impairment is recognised, the previously recognised impairment loss is reversed. However, the reversal is made to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Effective from 1 January 2018, IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses ("**ECL**") model, which constitutes a change from the incurred loss model in IAS 39.

Under IFRS 9, ECL is a probability-weighted estimate of credit losses. A credit loss is the difference between the total cash flows that are due to the Group in accordance with the contract and the total cash flows that the Group expects to receive discounted at the original effective interest rate, i.e. the present value of the total cash flows shortage. Purchased or originated credit-impaired financial assets shall be discounted at the credit-adjusted effective interest rate. The Group measures the ECL of financial instruments at amortised cost or debt investments at fair value through other comprehensive income. The Group divides them into 3 stages by assessing whether there has been a significant increase in credit risk since initial recognition. The Group measures the ECL of a financial instrument in a way that reflects (1) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes; (2) the time value of money; and (3) 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.

The following table sets forth certain information regarding the Bank's individually identified impaired loans and its loans overdue by more than 90 days as at the dates indicated:

	31 December 2018	**31 December 2019**	**31 December 2020**	30 June 2021
	(RMB in million, except percentages)			
Non–performing loans	72,512	78,043	97,698	101,432
Loans overdue by more than 90 days	63,321	61,597	64,723	
Non-performing loan ratio	1.49%	1.47%	1.67%	1.60%

Impaired Loans by Industry

A significant portion of the Bank's impaired corporate loans is concentrated in the manufacturing, wholesale and retail and real estate sectors. The impaired loan concentration in the manufacturing sector is due primarily to the high proportion of corporate loans to the manufacturing sector, and to the intense competition and overcapacity exhibited by this sector. The impaired loan concentration in the wholesale and retail sector is due primarily to the intense competition and cyclicality exhibited by this sector during the global financial crisis. The Bank has recently adopted several measures as part of its on-going efforts to manage its credit risk across its industries by, among other things, adopting an industry risk rating system and an internal risk rating system to monitor those industries which are most affected by governmental policies or overcapacity, or those which are low-growth industries, so that the Bank can adjust timely its credit standards and select customers with a lower risk profile. The impaired loan concentration in the real estate sector is due primarily to the growth of the Bank's lending to the real estate sector. The Bank have tried to manage its credit risk in the real estate sector by paying close attention to the market environment and changes in governmental policies, by focusing its lending more heavily on large national and regional property development companies and limiting its lending to small-sized and medium-sized property development companies.

Distribution of non-performing loans by region

The following table sets forth the geographic distribution of the Bank's non-performing loans as at the dates indicated:

	As at 31 December 2019			As at 31 December 2020			30 June 2021		
	Amount	*% of total loans*	*Non-performing loan ratio*	*Amount*	*% of total loans*	*Non-performing loan ratio*	*Amount*	*% of total loans*	*Non-performing loan ratio*
	(RMB in million, except percentages)								
Yangtze River Delta	12,836	16.45	0.89	20,932	21.43	1.33	22,841	27.42	1.31
Pearl River Delta	6,056	7.76	1.06	7,332	7.50	1.04	8,315	12.54	1.04
Bohai Rim Economic Zone	9,646	12.30	1.30	17,058	17.46	2.05	16,850	14.49	1.83
Central China	11,369	14.57	1.37	18,005	18.43	1.88	18,797	16.25	1.82
Western China(6)	11,951	15.31	2.04	9,220	9.44	1.36	10,126	11.54	1.38
North Eastern China(3)	13,826	17.72	6.50	10,998	11.26	4.72	10,572	3.81	4.37
Head Office(1)	11,146	14.28	0.31	10,567	10.82	2.08	3,539	5.96	0.94
Overseas(7)	1,213	15.31	2.06	3,586	9.44	1.00	10,392	7.99	2.05
Total	78,043	100.00	1.47	97,698	100.00	1.67	101,432	100.00	1.60

Notes:

(1) Head Office included the Pacific Credit Card Centre.

TRADING ASSETS

The Bank invests in and trades Renminbi-denominated and foreign currency-denominated listed and unlisted debt and equity securities for its own account to (1) maintain the stability and diversification of the Bank's assets, (2) maintain adequate sources of back-up liquidity to match the Bank's funding requirements, and (3) supplement income from the Bank's core lending activities.

The Bank's investment securities include primarily securities issued by central governments and central banks, securities issued by banks and other financial institutions, securities issued by corporate entities, as well as a small portion of investment securities issued by public sector entities.

The Bank's trading assets include primarily listed and unlisted debt and equity securities, as well as derivative financial instruments, issued by banks and financial institutions, corporate entities, governments and central banks and public sector entities. The majority of the unlisted bonds in this category are traded in the interbank market in the PRC.

The Bank recorded its investment securities and trading assets on its statement of financial position as financial assets held for trading, loans and receivables investment securities, held-to-maturity investment securities and available-for-sale investment securities as at and for the year ended 31 December 2017. Debt securities with fixed or determinable payments that are not quoted in an active market, without the intent to sell immediately or in the short term are classified as loans and receivables. Investment securities with fixed maturity where the Bank's management has the intent and the ability to hold to maturity are classified as held-to-maturity investment securities. Investment securities intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices are classified as available-for-sale investment securities. A trading asset is classified as financial assets held for trading if it is acquired principally for the purpose of selling in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. From 1 January 2018, the Bank applied IFRS 9 and records and reclassifies its investment securities and trading assets on its statement of financial position as financial assets by measurement of fair value through profit or loss ("**FVPL**"), fair value through other comprehensive income ("**FVOCI**") or amortised cost. Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured from these financial assets. Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at FVOCI.

The following table sets forth a distribution of the Bank's investment securities by classification and type of issuer as at the dates indicated:

	31 December 2018		**31 December 2019**		**31 December 2020**		**30 June 2021**	
	Amount	*% of total*	*Amount*	*% of total*	*Amount*	*% of total*	*Amount*	*% of total*
	(RMB in million, except percentages)							
Debt investments at FVOCI								
Governments and central banks................	66,621	2.98	258,959	10.57	340,723	12.93	319,438	11.97
Public sector entities	3,699	0.17	2,108	0.09	3,376	0.13	4,944	0.19
Banks and other financial institutions......	312,339	13.96	329,703	13.45	304,690	11.56	299,083	11.21
Corporate entities	54,971	2.46	69,941	2.85	75,084	2.85	83,412	3.13
Total	437,630	19.57	660,711	26.96	723,873	27.47	706,877	26.50
Bond investments at amortised cost								
Governments and central banks................	1,439,657	64.37	1,521,473	62.08	1,710,428	64.92	1,805,050	67.67
Public sector entities	28,364	1.27	25,689	1.05	21,979	0.83	21,683	0.81
Banks and other financial institutions......	292,631	13.08	215,817	8.81	148,404	5.63	104,712	3.93
Corporate entities	38,411	1.72	27,038	1.10	29,983	1.14	29,207	1.09
Total	1,799,063	80.43	1,790,017	73.04	1,910,794	72.53	1,960,652	73.50

LIABILITIES AND SOURCES OF FUNDS

The Group's total liabilities as at 30 June 2021 were RMB10,478,045 million, which represents an increase of 6.71 per cent. from RMB9,818,988 million as at 31 December 2020. The Group's due to customers accounted for 66.22 per cent. of its total liabilities as at 30 June 2021. The Bank obtains funding for its lending and investment activities from a variety of sources, both domestic and international. The Bank's principal sources of funding are corporate and individual deposits. The Bank's funding operations are designed to ensure both a stable source of funds and effective liquidity management. The Bank continuously adjusts its funding operations to minimise funding costs and also endeavours to match currencies and maturities with those of its loan portfolio.

The table below illustrates the balance and breakdown of the Group's due to customers as at the dates indicated:

	31 December 2018		31 December 2019		31 December 2020		30 June 2021	
	Amount	*% of total*	*Amount*	*% of total*	*Amount*	*% of total*	*Amount*	*% of total*
	(RMB in million, except percentages)							
Corporate deposits								
Corporate demand deposits	1,748,857	30.55	1,835,688	30.57	2,005,934	30.67	2,088,099	29.76
Corporate time deposits	2,195,241	38.35	2,196,096	36.57	2,335,590	35.72	2,464,371	35.12
Sub-total	3,944,098	68.90	4,031,784	67.14	4,341,524	66.39	4,552,470	64.88
Personal deposits								
Personal demand deposits	687,393	12.01	762,669	12.70	812,534	12.42	824,774	11.75
Personal time deposits ..	1,089,095	19.02	1,207,253	20.10	1,379,697	21.10	1,558,707	22.22
Sub-total	1,776,488	31.03	1,969,922	32.80	2,192,231	33.52	2,383,481	33.97
Other deposits	3,903	0.07	3,364	0.06	5,499	0.09	2,433	0.03
Accrued interest............	-	-	-	-	-	-	78,268	1.12
Total due to customers..	5,724,489	100.00	6,005,070	100.00	6,539,254	100.00	7,016,652	100.00

DISTRIBUTION OF DEPOSITS BY GEOGRAPHY

The following table sets forth the distribution of the Bank's deposit balances as at the dates indicated:

	31 December 2019		31 December 2020		30 June 2021	
	Amount	*% of total*	*Amount*	*% of total*	*Amount*	*% of total*
	(RMB in million, except percentages)					
Yangtze River Delta	1,657,282	27.58	1,786,446	27.31	1,903,166	27.12
Pearl River Delta	664,151	11.06	768,470	11.75	872,402	12.43
Bohai Rim Economic Zone..................	1,216,551	20.26	1,348,298	20.62	1,436,471	20.47
Central China..	983,484	16.38	1,072,501	16.40	1,155,580	16.47
Western China	694,097	11.56	734,423	11.23	774,681	11.04

	31 December 2019		31 December 2020		30 June 2021	
	Amount	*% of total*	*Amount*	*% of total*	*Amount*	*% of total*
	(RMB in million, except percentages)					
North Eastern China	306,599	5.11	330,087	5.05	333,383	4.75
Overseas	465,096	7.75	495,356	7.58	459,161	6.54
Head office	17,810	0.30	3,673	0.06	3,540	0.05
Accrued interest....................................	-	-	-	-	78,268	1.13
Total	6,005,070	100.00	6,539,254	100.00	7,016,652	100.00

SUBSTANTIAL SHAREHOLDERS

The section in the Original Offering Circular entitled "***SUBSTANTIAL SHAREHOLDERS***" is deemed to be deleted in its entirety and replaced as follows:

The table below sets forth certain information regarding ownership of outstanding shares of the Bank as at 30 June 2021 by those persons who hold or are beneficially interested in any substantial part of the share capital of the Bank.

Particulars of shareholdings disclosed pursuant to H shares regulatory requirements

As at 30 June 2021, to the knowledge of the directors, supervisors and chief executive of the Bank, the substantial shareholders and other persons (other than directors, supervisors and chief executive of the Bank) who had interests or short positions in the shares or underlying shares of the Bank as recorded in the register required to be kept pursuant to Section 336 of the SFO were as follows:

Name of substantial shareholders	Capacity	Number of A shares	Nature of interest[1]	Approximate percentage of total issued A shares	Approximate percentage of total issued shares
				(%)	
Ministry of Finance of the People's Republic of China	Beneficial owner	13,178,424,446 [2]	Long position	33.57	17.75
National Council for Social Security Fund...............................	Beneficial owner	3,105,155,568 [3]	Long position	7.91	4.18

Name of substantial shareholders	Capacity	Number of H shares	Nature of interest[1]	Approximate percentage of total issued H shares[8]	Approximate percentage of total issued shares[8]
				(%)	
National Council for Social Security Fund...............................	Beneficial owner	9,055,113,332[3]	Long position	25.86	12.19
Ministry of Finance of the People's Republic of China	Beneficial owner	4,553,999,999[2]	Long position	13.01	6.13
HSBC Holding plc	Interest of controlled corporations	14,135,636,613[4]	Long position	40.37	19.03

Notes:

(1) Long positions held other than through equity derivatives.

(2) To the knowledge of the Bank, as at 30 June 2021, the Ministry of Finance of the People's Republic of China held 4,553,999,999 H shares and 13,178,424,446 A shares of the Bank, representing 6.13 per cent. and 17.75 per cent. of the total ordinary shares issued by the Bank, respectively.

(3) To the knowledge of the Bank, as at 30 June 2021, the National Council for Social Security Fund held 9,055,113,332 H shares and 3,105,155,568 A shares of the Bank, representing 12.19 per cent. and 4.18 per cent. of the total ordinary shares issued by the Bank, respectively.

(4) HSBC Holding plc wholly owns HSBC Asia Holdings Limited, which wholly owns HSBC. HSBC beneficially held 14,135,636,613 H shares of the Bank. Pursuant to the SFO, HSBC Holding plc was deemed to own the interests associated with the 14,135,636,613 H shares held by HSBC.

Save as disclosed above, as at 30 June 2021, no person (excluding the Directors, Supervisors and Chief Executive of the Bank) or corporation was recorded in the register required to be kept under Section 336 of the SFO as holding any interests or short positions in the shares or underlying shares of the Bank that would fall to be disclosed to the Bank and the Hong Kong Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO.

MANAGEMENT OF THE BANK

The section in the Original Offering Circular entitled "***MANAGEMENT OF THE BANK***" is deemed to be deleted in its entirety and replaced as follows:

GENERAL

The Board of the Bank currently comprises 16 members being two executive directors, eight non-executive directors and six independent non-executive directors. Each director of the Bank is elected at a shareholder meeting for a term of three years, which is renewable upon re-election. The chairman and the vice chairman of the Board are elected by a simple majority of the Board.

The business address of the directors, supervisors and senior management personnel named below is No. 188 Yinchengzhong Road, Pudong District, Shanghai, PRC, 200120.

DIRECTORS

The following table sets forth certain information concerning the directors of the Bank.

Name	Position
Mr. REN Deqi	Chairman and Executive Director
Mr. LIU Jun	Vice Chairman, Executive Director and President
Mr. LI Longcheng	Non-executive Director
Mr. WANG Linping	Non-executive Director
Mr. CHANG Baosheng	Non-executive Director
Mr. LIAO, Yi Chien David	Non-executive Director
Mr. CHAN Siu Chung	Non-executive Director
Mr. SONG Hongjun	Non-executive Director
Mr. CHEN Junkui	Non-executive Director
Mr. LIU Haoyang	Non-executive Director
Mr. Jason YEUNG Chi Wai	Independent Non-executive Director
Mr. Raymond WOO Chin Wan	Independent Non-executive Director
Mr. CAI Haoyi	Independent Non-executive Director
Mr. SHI Lei	Independent Non-executive Director
Mr. ZHANG Xiangdong	Independent Non-executive Director
Ms. LI Xiaohui	Independent Non-executive Director

EXECUTIVE DIRECTORS

Mr. REN Deqi, Chairman, Executive Director and Senior Economist. Mr. Ren serves as the Chairman of the Board from 16 January 2020. He has been a Vice Chairman, Executive Director and President of the Bank since August 2018. Mr. Ren resigned as President of the Bank on 13 December 2019 and served as Acting President from 13 December 2019 to 6 July 2020. Mr. Ren worked successively in the Changling Sub-branch of Yueyang Branch, Yueyang City Central Sub-branch, Yueyang Branch, Credit Management Committee Office and Credit

Risk Management Department of China Construction Bank ("**CCB**") from July 1988 to August 2003. He successively served as Deputy General Manager of Credit Approval Department, General Manager of Risk Control Department, General Manager of Credit Management Department, president of the Hubei Provincial Branch and General Manager of Risk Management Department of CCB from August 2003 to May 2014. He served as Executive Vice President of Bank of China ("**BOC**") from July 2014 to November 2016, and served as Executive Director and Executive Vice President of BOC from December 2016 to June 2018; during such period, he also served as Non-executive Director of BOC Hong Kong (Holdings) Limited from October 2015 to June 2018 and President of Shanghai RMB Trading Unit of BOC from September 2016 to June 2018. Mr. Ren obtained his Master's degree in Engineering from Tsinghua University in 1988.

Mr. LIU Jun, Vice Chairman and Executive Director. Mr. Liu has served as Vice Chairman of the Board and Executive Director of the Bank since 5 August 2020. Mr. Liu served as Executive Vice President of China Investment Corporation from November 2016 to May 2020, Deputy General Manager of China Everbright Group Ltd. from December 2014 to November 2016, and Executive Director and Deputy General Manager of China Everbright Group Limited from June 2014 to December 2014 (from June 2014 to November 2016, Mr. Liu successively served as Chairman of Sun Life Everbright Life Insurance Company Limited, Vice Chairman of China Everbright Holdings Company Limited., Executive Director and Vice Chairman of China Everbright Limited, Executive Director and Vice Chairman of China Everbright International Limited, and Chairman of China Everbright Industrial (Group) Co., Ltd.). He served as Assistant to the President and Executive Vice President of China Everbright Bank from September 2009 to June 2014 (during which he concurrently acted as president of Shanghai Branch of China Everbright Bank and General Manager of Financial Market Centre of China Everbright Bank). From July 1993 to September 2009, he successively worked at the International Business Department, Hong Kong Representative Office, the Treasury Department and the Investment Banking Department of China Everbright Bank. Mr. Liu received a Doctorate degree in business administration from Hong Kong Polytechnic University in 2003.

NON-EXECUTIVE DIRECTORS

Mr. LI Longcheng, Non-executive Director. Mr. Li has been a Non-executive Director since June 2020. Mr. Li served as the Director of Heilongjiang Supervision Bureau of the Ministry of Finance since April 2019, the Chief Inspector of Heilongjiang Supervision & Inspection Office of the Ministry of Finance from August 2015 to April 2019, the Chief Inspector of Liaoning Supervision & Inspection Office of the Ministry of Finance from August 2012 to August 2015, the Deputy Inspector of Heilongjiang Supervision & Inspection Office of the Ministry of Finance from August 2008 to August 2012; the Deputy Inspector of Zhejiang Supervision & Inspection Office of the Ministry of Finance from January 2006 to August 2008. From January 1995 to January 2006, Mr. Li successively served as a Staff Member of the General Division, a Senior Staff Member of the General Division, the Deputy Director of the General Division, the Director of the First Division and the Assistant Commissioner of Heilongjiang Supervision & Inspection Office of the Ministry of Finance. From August 1986 to January 1995, Mr. Li worked in Beijing Forestry Management Cadres College of the Ministry of Forestry and Heilongjiang Finance Department. Mr. Li obtained a Doctorate degree in management from Northeast Forestry University in 2003.

Mr. WANG Linping, Mr. Wang has served as level-one inspector of the Retired Cadres Bureau of the Ministry of Finance since December 2019, chairman of China Finance and Economic Media Group from June 2018 to December 2019, department level cadre of the Ministry of Finance from March 2018 to June 2018. From May 2004 to March 2018, he successively served as chief and director-level cadre of the Financial Division and vice minister and minister of the Department of Administrative Finance of the Liaison Office of the Central People's Government in Macao Special Administrative Region. From July 1994 to May 2004, Mr. Wang served successively as chief staff member, assistant researcher of the Management Division of Retirement Funds of

Administrative Institutions, deputy director and researcher of Pension Security Division of the Social Security Department of Ministry of Finance, and from August 1986 to July 1994, he served successively as a staff member, deputy chief staff member and chief staff member of the Party Committee of the Ministry of Finance. Mr. Wang obtained his Bachelor's degree in philosophy from Zhongnan University of Finance and Economy in 1986.

Mr. CHANG Baosheng, Mr. Chang has served as deputy inspector and level-two inspector of Ningxia Supervision Bureau of the Ministry of Finance since April 2019. From January 1995 to April 2019, he successively served as a staff member and deputy chief staff member of the First Business Section, the chief staff member of the General Division, the deputy director of the General Office, deputy director of the Second Business Department, deputy director of the Third Business Department, assistant commissioner and deputy inspector of Ningxia Supervision and Inspection Office of the Ministry of Finance. From July 1989 to January 1995, Mr. Chang served as a staff member of the Chinese Enterprise Division of Ningxia Finance Department of the Ministry of Finance. Mr. Chang obtained his Bachelor's degree in economics from Zhongnan University of Finance and Economy in 1989.

Mr. LIAO, Yi Chien David**,** Mr. Liao has been Non-executive Director of the Bank since May 2021, and serves as group general manager at HSBC, head of Asia Pacific Global Banking Coverage of HSBC. Mr. Liao served as president and chief executive officer of HSBC China, head of Global Banking and Markets at HSBC China, executive vice president of HSBC China, treasurer of HSBC China. Mr. Liao previously worked at IBJ International (now Mizuho International). Mr. Liao obtained a bachelor's degree with honours from the University of London in 1995.

Mr. CHAN Siu Chung, Non-executive Director. Mr. Chan has been a Non-executive Director since October 2019. Mr. Chan has been serving as the Co-head of Markets for Asia-Pacific at the Hong Kong and Shanghai Banking Corporation Limited since August 2013. Mr. Chan joined the Hong Kong and Shanghai Banking Corporation Limited in 1986, and from July 1986 to July 2013, Mr. Chan successively served as the Senior Dealer, Senior Interest Rate Dealer, Head of Hong Kong Dollar Interest Rate and Derivatives Trading, Head of Trading in Hong Kong, and concurrently served as Deputy Head of Global Markets Asia Pacific and Head of Trading in Hong Kong. Mr. Chan graduated from the University of Hong Kong with a Bachelor's Degree in Electrical Engineering in 1986 and obtained his Master's degree from Macquarie University in Australia of Applied Finance in 1994.

Mr. SONG Hongjun, Non-executive Director. Mr. Song has been a Non-executive Director since June 2019. Mr. Song has been serving as the Director of Pension Accounting Department of the National Council for Social Security Fund since September 2018. From August 2001 to September 2018, Mr. Song successively served as the Deputy Division Chief of Financial Division of Finance and Accounting Department, the Division Chief and Deputy Head of Fund and Finance Department, and the Deputy Head of Pension Accounting Department of the National Council for Social Security Fund. From August 1989 to August 2001, Mr. Song successively served as a Cadre, the Staff Member, and Senior Staff Member in Financial Division of Commerce, Banking and Finance Department of Ministry of Finance, the Principal Staff Member in the Second Financial Division of Commerce and Finance Department, the Principal Staff Member in the First Division of National Debt and Finance Department, and the Deputy Division Chief of the First Financial Division of Finance Department. Mr. Song graduated from Dongbei University of Finance and Economics in 1989, and obtained his Master's degree in Public Administration from the joint program between Peking University and Chinese Academy of Governance in 2008.

Mr. CHEN Junkui, Non-executive Director. Mr. Chen has been a Non-executive Director since June 2019. Mr. Chen has been serving as the Deputy Director-General of Financial Management and Supervision (internal audit) Department of the State Tobacco Monopoly Administration since February 2019. Mr. Chen successively served as the Deputy Head, Head of the Finance and Asset Department of China Tobacco Machinery Group

Co., Ltd. from December 2005 to February 2019, the Principal Staff Member in Financial Management Department of China Tobacco Investment Management Co. from September 2005 to December 2005, a Cadre of Financial Department and the Senior Staff Member and Principal Staff Member of Financial Department of National Tobacco Commodity Company (Cigarette Filter Material Company) from September 2000 to September 2005, and worked in Beijing Bureau of Geology and Mineral from July 1997 to September 2000. Mr. Chen obtained his Master's degree in Management Science from Capital University of Economics and Business in July 2002.

Mr. LIU Haoyang, Non-executive Director and Accountant. Mr. Liu has been a Non-executive Director since August 2016. Mr. Liu has been Deputy General Manager of the Capital Operation Department of Beijing Capital Airport Holding Company since November 2015. He served as Deputy General Manager of Capital Airport Finance Co., Ltd. from October 2012 to November 2015, Financial Director of Inner Mongolia Airport Group from June 2009 to October 2012, Assistant to General Manager and Deputy General Manager of Finance Department of Beijing Capital Airport Holding Company from March 2005 to June 2009, Assistant to Manager of Finance Department of Jinfei Civil Aviation Economic Development Center from July 2001 to March 2005, and Assistant to Manager of Finance Department of Beijing Huadu Breeding Company from July 1994 to September 1998. Mr. Liu obtained his Master's degree in Management from College of Economics and Management of China Agricultural University in 2001.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Jason YEUNG Chi Wai, Independent Non-executive Director and Lawyer. Mr. Yeung has been an Independent Non-executive Director since October 2016. Mr. Yeung serves as Supervisor and President of Risk Management of Fung Group (1937) and its Hong Kong listed company since July 2015. At present, Mr. Yeung also holds positions such as Independent Director of AviChina Industry & Technology Company Limited and Member of Convention of Hospital Authority in Hong Kong. Mr. Yeung served as Vice President of Bank of China (Hong Kong) Limited (in charge of Personal Banking Business) from April 2011 to February 2015, before which he also served as Secretary of the Board of Bank of China (Hong Kong) Limited and Secretary of Bank of China Limited and took positions in charge of supervision of market and compliance of laws and regulations in Hong Kong government, the Securities and Futures Commission, law firms and various enterprises. Mr. Yeung graduated from the University of Hong Kong in 1978, the College of Law of England and Wales in 1985 and the Faculty of Law of University of Western Ontario in 1991, and obtained his MBA degree from University of Western Ontario in 2001.

Mr. Raymond WOO Chin Wan, Independent Non-executive Director, Hong Kong and Canadian Certified Public Accountant. Mr. Woo serves as an Independent Non-executive Director of the Bank from November 2017. Mr. Woo joined Ernst & Young in June 1985 and retired in June 2015. Within this period, he has been Senior Associate, Manager, Senior Manager, Partner and Managing Partner.

He served as Managing Partner of Ernst & Young Greater China from 2011 to June 2015 and served as Director and General Manager in Ernst & Young from 2007 to 2012. Mr. Woo was also the member of Ernst & Young Greater China Management Committee from 1998 to 2015. Mr. Woo is currently an Independent Non-executive Director of Dah Chong Hong Holdings Limited and Great Wall Pan Asia Holdings Limited. Mr. Woo obtained his MBA degree from York University in Canada in 1982.

Mr. CAI Haoyi, Independent Non-executive Director and Researcher. Mr. Cai has been Independent Non-executive Director of the Bank since August 2018. Mr. Cai currently serves as Master's Supervisor in PBC School of Finance, Tsinghua University, Doctoral Supervisor in University of International Business and Economics and Postdoctoral supervisor in Financial Research Institute of the PBOC. Mr. Cai served as Chairman of the Board of Supervisors in Everbright Bank of China from November 2012 to June 2015 and

Non-executive Director in Bank of China from August 2007 to November 2012. Mr. Cai held various positions in Bank of China from July 1986 to March 2007, including Principal Staff of Graduate Department, Deputy Division Chief of Political Department, Division Chief of Political Department, Director, Deputy Director of the General Office of Financial Research Institute, Deputy Head of Financial Research Institute, Deputy Head of Research Bureau and Secretary General of Monetary Policy Committee. Mr. Cai obtained his Doctoral Degree from Financial Research Institute of the PBOC in 2001 and he obtained special government allowances from the State Council in 2003.

Mr. SHI Lei, Independent Non-executive Director. Mr. Shi has been Independent Non-executive Director of the Bank since December 2019. Mr. Shi currently serves as a Professor, a Doctoral Supervisor of Fudan University, and the Head of the Public Economic Research Centre of Fudan University. Mr. Shi joined Fudan University in 1993, since then, he subsequently served as the Head of the China Socialism Market Economy Research Centre, the Director of the Publicity Department of the Communist Party Committee of Fudan University, and the Secretary of the Communist Party Committee of Fudan University Economics College. Currently, Mr. Shi also serves as the Independent Non-executive Director of Ko Yo Chemical (Group) Limited and Sanxiang Impression Co., Ltd. Mr. Shi obtained his Doctorate degree from the Institute of Economics at Shanghai Academy of Social Sciences in 1993. Mr. Shi enjoys the special allowance of the State Council.

Mr. ZHANG Xiangdong, Independent Non-executive Director and Senior Economist. Mr. Zhang served as a Non-executive Director of Bank of China Limited from July 2011 to June 2018 and a Non-executive Director of China Construction Bank Corporation from November 2004 to June 2010 (acting as Chairman of the Risk Management Committee of the Board of Directors from April 2005 to June 2010). From January 2004 to December 2008, Mr. Zhang concurrently served as Member of China International Economic and Trade Arbitration Commission. From August 2001 to November 2004, he successively served as Vice President of Haikou Branch of the PBOC and Deputy Director General of Hainan Branch of the State Administration of Foreign Exchange concurrently, Deputy Director General and Inspector of the General Affairs Department of the State Administration of Foreign Exchange. From September 1999 to September 2001, Mr. Zhang concurrently served as a Member of the Issuance Approval Committee of China Securities Regulatory Commission. Mr. Zhang graduated from Renmin University of China with a Bachelor’s degree in law in 1986, graduated with a Postgraduate degree in international economic law from Renmin University of China in 1988, and obtained a Master’s degree in law in 1990.

Ms. LI Xiaohui, Independent Non-executive Director. Ms. Li has been a Professor and Doctoral Supervisor at the School of Accounting, Central University of Finance and Economics from September 2003. From July 2001 to August 2003, she worked in the Professional Standards Department of the Chinese Institute of Certified Public Accountants. From April 1993 to August 1998, Ms. Li worked successively in Cangzhou Accounting Firm, Cangshi Accounting Firm and the State-owned Assets Administration under Hebei Province Department of Finance. Ms. Li is a national leading accountant, and a member of the Professional Technical Advisory Committee of the Chinese Institute of Certified Public Accountants, a member of the Audit Committee of the Accounting Society of China and a member of the Audit Standards Committee of the China Internal Audit Association. Ms. Li currently serves as Independent Director of Fangda Special Steel Technology Co., Ltd., State Grid Information and Communication Co., Ltd., Jizhong Energy Co., Ltd., and Camel Group Co., Ltd. Ms. Li previously served as Director of Fangda Carbon New Material Co., Ltd., Bank of Beijing Co., Ltd. and China U-Ton Holdings Limited. Ms. Li received a Doctorate degree in Economics from Central University of Finance and Economics in 2001.

SENIOR MANAGEMENT

The senior management of the Bank comprises members of the senior management and secretary of the Board, of which, members of the senior management include the president, executive vice presidents, chief business officer, chief risk officer and HSBC strategic cooperation adviser, etc. The Bank adopts the system of accountability by the president under the leadership of the Board. The president is accountable to the Board, whereas various functional departments, branch offices and other members of senior management of the Bank are accountable to the president. The president has the right to organise, develop and operate management activities in accordance with laws, regulations, the Bank's Articles of Association and authorisation from the Board.

The following table sets forth certain information concerning members of the senior management of the Bank.

Name	Position
Mr. LIU Jun	President
Mr. YIN Jiuyong	Executive Vice President
Mr. GUO Mang	Executive Vice President
Mr. ZHOU Wanfu	Executive Vice President
Mr. HAO Cheng	Executive Vice President
Mr. QIAN Bin	Executive Vice President
Mr. GU Sheng	Secretary of the Board of Directors
Mr. TU Hong	Chief Business Officer (Interbank and Market Business Sector)
Mr. LIN Hua	Chief Risk Officer
Mr. WANG Feng	Chief Business Officer (Retail and Private Business Sector)
Mr. NG Siu On	BoCom-HSBC Strategic Cooperation Consultant

Mr. LIU Jun, please refer to details in "EXECUTIVE DIRECTORS".

Mr. YIN Jiuyong, Executive Vice President and Senior Economist. Mr. Yin has been Executive Vice President of the Bank since September 2019. Mr. Yin served as Executive Vice President of the Agricultural Development Bank of China from May 2014 to July 2019, Director of the General Office of the Agricultural Development Bank of China from December 2013 to May 2014, General Manager of the Henan Branch of the Agricultural Development Bank of China from January 2011 to December 2013, Deputy General Manager and General Manager of the First Customer Department of the Agricultural Development Bank of China from January 2005 to January 2011 (during which he was seconded to Baoding Branch of the Agricultural Development Bank of China as Deputy Manager of the Business Department of the branch and Deputy General Manager of the branch from February 2007 to January 2008). Mr. Yin served as Division Chief of the Comprehensive Division and Deputy Director of the First Credit Department of the Agricultural Development Bank of China during April 1999 to January 2005; Principal Staff and Deputy Division Chief of the Purchasing and Marketing Department of the Industrial and Commercial Credit Department of the Agricultural Development Bank of China from July 1994 to April 1998, and Principal Staff of the Trust and Investment Company of the Agricultural Bank of China from July 1993 to July 1994. Mr. Yin obtained his Doctoral degree in Agriculture from Beijing Agricultural University in 1993.

Mr. GUO Mang, Executive Vice President and Senior Economist. Mr. Guo has been Executive Vice President of the Bank since July 2018. Mr. Guo served as Chief Business Officer of the Bank from February 2017 to July 2018 and served as General Manager of the Bank's Beijing Branch and Chief Executive Officer of Beijing Administrative Department (Group Customer Department) from December 2016 to June 2018. He was General

Manager of the Bank's Shenzhen Branch from January 2010 to December 2016, Deputy General Manager (in charge of overall work) and General Manager of the Bank's Chongqing Branch from September 2004 to January 2010. Moreover, he served as a credit clerk in the Credit and Investment Department and Deputy Section Chief of Shenzhen Branch, Head of Shatoujiao Office, Deputy General Manager (in charge of overall work) of Shatoujiao Subbranch, Deputy General Manager (in charge of overall work) and General Manager of Hongli Sub-branch, General Manager of the Marketing Department and Deputy General Manager of Shenzhen Branch from May 1991 to September 2004. Mr. Guo worked as Staff Member of PBOC Savings Interest Rate Department from June 1989 to May 1991. Mr. Guo also held various of positions from April 1988 to June 1989, including POBC Baoan Branch, Shenzhen Branch and State Administration of Foreign Exchange Shenzhen Branch. From July 1987 to April 1988, Mr. Guo worked as Staff Member in Reform Office of Comprehensive Planning Department in the PBOC. Mr. Guo obtained his Bachelor's degree in Economics from Fudan University in 1987.

Mr. ZHOU Wanfu, Executive Vice President. Mr. Zhou has been Executive Vice President of the Bank since November 2020. Mr. Zhou has been the Board Secretary of the Agricultural Bank of China from April 2018 to March 2020. Before that, Mr. Zhou served as General Manager of the Strategic Planning Department, President of Tianjin Training Institute and General Manager of the Strategic Planning Department of the Agricultural Bank of China successively from September 2012 to April 2018; Vice President of Chongqing Branch of the Agricultural Bank of China from June 2009 to September 2012; Deputy General Manager of the Asset and Liability Management Department, Deputy General Manager of the Planning and Finance Department, and General Manager of the Asset and Liability Management Department of the Agricultural Bank of China successively from October 2003 to June 2009; Vice President of the Ningbo Branch of the Agricultural Bank of China from November 1999 to October 2003; and Researcher and Deputy-Division-Chief-Level Cadre of the Research Office, Deputy Division Chief of the Development and Planning Department and Division Chief of Comprehensive Planning Department of the Agricultural Bank of China successively from July 1988 to November 1999. Mr. Zhou obtained a Master's degree in Economics from the Graduate School of the PBOC in 1988 and an MBA degree from Nanyang Technological University in Singapore in 2003.

Mr. HAO Cheng, Executive Vice President. Mr. Hao has been Executive Vice President of the Bank since March 2021, Senior Enginee. Mr. Hao held various positions in China Development Bank, including President of the Jilin Branch, Deputy Director of the Personnel Bureau of the Head Office, Executive Vice President of the Tianjin Branch, Division Chief of the Comprehensive Division of the Personnel Bureau of the Head Office, Division Chief of the Policy Division of the Personnel Bureau of the Head Office, Division Chief of the System Personnel Division of the Personnel Bureau of the Head Office, Deputy Division Chief of Policy Division of the Personnel Bureau of the Head Office, Deputy Division Chief of the Second Credit Management Division and the Fourth Credit Management Division of the Credit Management Bureau of the Head Office. Mr. Hao obtained his Doctoral degree in Management from Beijing Jiaotong University in 2009.**Mr. GU Sheng**, Secretary of the Board of Directors and Senior Economist. Mr. Gu has been Secretary of the Board of Directors and General Manager of Human Resources Department since April 2018. Mr. Gu successively served as General Manager of Human Resources Department from October 2015 to April 2018. Mr. Gu successively served as Deputy General Manager of Hainan Branch (in charge of overall work), Deputy General Manager of Nanjing Branch, General Manager of Suzhou Branch and General Manager of Jiangsu Branch from December 1999 to October 2015. Mr. Gu served as Division Chief of Personnel Department of the Personnel and Education Department of the Bank from March 1999 to December 1999. Mr. Gu held various of positions in the Bank, including Staff Member of Personnel and Education Department of Nanjing Branch, Deputy Section Chief of General Affairs Department, Assistant to the Division Chief of Personnel and Education Department and Section Chief of General Affairs Department, Deputy Division Chief of Personnel and Education Department, Deputy General Manager of Xiaguan Branch, General Manager of Xiaguan Branch from August 1987 to March 1999. Mr. Gu served as clerk of Credit Department of Jiangsu Xinghua County Sub-branch of

Agricultural Bank of China from July 1984 to August 1987. Mr. Gu obtained his EMBA's degree from Nanjing University in 2006.

Mr. TU Hong, Chief Business Officer (Inter-bank and Market Business Sector). Mr. Tu has been Chief Business Officer (Interbank and Market Business Sector) of the Bank since September 2018, General Manager of Financial Institution Department of the Bank since August 2018. Mr. Tu served as Chief Executive Officer of Financial Market Business Center of the Bank from July 2014 to November 2018 (during which he concurrently served as Chief Executive Officer of Asset Management Business Center from February 2016 to September 2016). Mr. Tu held various of positions in the Bank from November 2000 to July 2014, including Deputy General Manager of Guangzhou Branch, Deputy General Manager of International Business Department, General Manager of New York Branch, General Manager of Financial Market Department, Chief Executive Officer of Financial Market Business Center/Precious Metals Business Center. Mr. Tu also held various of positions in the Bank from August 1989 to November 2000, including credit clerk of Overseas Business Department of Beijing Branch, Deputy Section Chief and Deputy Manager of Foreign Exchange and Deposit Department, Vice Chairman and Deputy General Manager of the Preparatory Committee of Sanyuan Sub-branch, Deputy Manager of the Foreign Exchange Credit Department and Division Chief of the General Administration of Foreign Exchange Business. Mr. Tu obtained his Bachelor's Degree in Economics from Renmin University of China in 1989 and Master's Degree in Economics from Fudan University in 1998.

Mr. NG Siu On, Bocom-HSBC Strategic Cooperation Consultant. Mr. Ng has been HSBC-BoCom Strategic Cooperation Consultant of the Bank since March 2013. Mr. Ng held various positions in HSBC including Regional Director of the New Territories of HSBC Hong Kong, Associate Vice President and General Manager of the Canadian Toronto Branch Network of HSBC Bank, Deputy General Manager and Director of Branches of HSBC's Area Office China, Senior Manager of Commercial Banking, Director of Medium-sized Enterprises, Head of Corporates of HSBC's Commercial Banking in Hong Kong and Special Consultant for HSBC's Asia-Pacific CEO on Greater China business from June 1989 to March 2013. Mr. Ng currently serves as Honorary Advisor of the Hong Kong Institute of Bankers. Mr. Ng obtained his MBA's degree from the Chinese University of Hong Kong in 1984.

BOARD OF SUPERVISORS

In accordance with the requirements of the company law of the PRC and the Bank's Articles of Association, the board of supervisors of the Bank monitors the Board's execution of the resolutions approved at shareholders' meetings and decisions made within the Board's scope of power. The board of supervisors of the Bank also monitors the senior management's implementation of resolutions approved at shareholders' general meetings and Board's meetings, and the business activities that were carried out within the senior management's scope of power. The board of supervisors is also responsible for monitoring the performance of the directors and senior management, and for investigating the Bank's financial condition.

The board of supervisors of the Bank includes the following members:

Mr. ZHANG Minsheng, Shareholder Supervisor. Mr. Wang has been a Shareholder Supervisor of the Bank since March 2019. Mr. Zheng is a Senior Accountant at researcher level. From April 2019 till January 2020 he has worked as Chief Accountant of the Aviation Industry Corporation of China, Ltd. From September 2016 to April 2019 he served as Chief Accountant of Aero Engine Corporation of China and Chairman of AECC Aviation Power Co., Ltd. (concurrently serving as Executive Director (Legal Representative) of AECC Asset Management Co., Ltd. from November 2016 to March 2019). From April 2016 to September 2016 he worked as Chief Accountant of Aero Engine Corporation of China. From October 2015 to April 2016 he worked as Director and General Manager of AVIC Capital Co., Ltd. From September 2014 to October 2015 he served as Chairman of Xi'an Aero-Engine Corporation and Deputy General Manager of AECC Aero-Engine Control Ltd.

(concurrently serving as General Manager of AECC Aero-Engine Control Ltd., Xi'an Branch from November 2014 to October 2015 and concurrently serving as General Manager, Director and Vice Chairman of Xi'an Aero-Engine Plc from September 2014 to November 2014). From May 2013 to September 2014 he served as Chairman of Xi'an Aero-Engine Corporation and served as General Manager, Director and Vice Chairman of Xi'an Aero-Engine Plc. From October 2011 to May 2013 he worked as General Manager and Vice Chairman of Xi'an Aero-Engine Corporation and Chairman of the Board of Supervisors of Xi'an Aero-Engine Plc. From August 2008 to October 2011 he worked as Director of the Audit Department of Aviation Industry Corporation of China, Ltd. From June 1999 to August 2008 he successively served as Deputy Chief, Chief and Deputy Director of the Financial Audit Department and Deputy Director and Director of the Financial Department of China Aviation Industry Corporation II. From June 1993 to June 1999 he successively served as Principal Staff Member and Senior Staff Member of the Bureau of Finance of the Aviation Industry Corporation of China, Ltd. From August 1990 to June 1993 he worked as Staff Member and Principal Staff member of the Department of Finance of the Ministry of Aerospace Industry. Mr. Zhang Minsheng graduated from Dongbei University of Finance and Economics with a Bachelor's degree in Economics in 1990 and obtained an EMBA degree from HEC Paris in 2009.

Mr. WANG Xueqing, Shareholder Supervisor. Mr. Wang has been a Shareholder Supervisor of the Bank since June 2017. Mr. Wang has been Chief Accountant of Daqing Oilfield Co., Ltd. (Daqing Petroleum Administration Bureau) and member of the Party committee of Daqing Oilfield Co. Ltd. since October 2016. Mr. Wang served as Director of Finance Department of Daqing Oilfield Company from October 2009 to February 2018. From July 2008 to October 2009, Mr. Wang was appointed as Director of Financial Assets of the First Department in Daqing Oilfield Company. He was Head of the Accounting Department (Center) of the Financial Assets Department in Daqing Oilfield Company and became Section Chief, First Deputy Director and Director from November 1999 to July 2008. At present, Mr. Wang holds difference positions including Chairman of the Board of Directors of Daqing Petroleum (Hong Kong) Co. Ltd. and Daqing Energy (Hong Kong) Co. Ltd., Director of Qingdao Qingxin Plastic Co. Ltd. and DPS Indonesia Co. Ltd., Chairman of the Board of Supervisors of Daqing Oilfield Lishen Pump Co. Ltd. and PTINDOSPECENERGY and Vice President of the Sixth Council of China Association of Plant Engineering. Mr. Wang graduated from Tianjin University of Finance and Economics with Master's degree in June 2002, majoring in Accounting. He is also a Professorate Senior Accountant.

Ms. XIA Zhihua, External Supervisor. Ms. Xia has been External Supervisor of the Bank since June 2016. Ms. Xia served as Chairman of the Board of Supervisors of China Life Insurance Co. Ltd. from March 2006 to July 2015. She was accredited by the State Council to serve as Deputy Head of the General Office of the Board of Supervisors, Supervisor (Deputy Director General Level), Head of the General Office of the Board of Supervisors and Supervisor (Bureau Level) of China Great Wall Asset Management Corporation, China Economic Development Trust and Investment Company, China Life Insurance (Group) Company and China Export & Credit Insurance Corporation successively from July 2000 to December 2005. Moreover, Ms. Xia served as Associate Inspector of National Treasury Bureau of the Ministry of Finance in June 2000. She also served as Deputy Director-General of National Debt Financial Department and Department of National Debt of the Ministry of Finance from July 1997 to June 2000. She successively served as Principal Staff, Deputy Division Chief and Division Chief of State Debt Management Department of the Ministry of Finance from December 1988 to June 1997 and Principal Staff of Financial Department of Cultural and Educational Administrative Affairs from December 1984 to November 1988. Ms. Xia obtained Master's degree in Economics from Xiamen University in 1984. At present, Ms. Xia serves as an International Internal Auditor and a Senior Economist, enjoying the special government allowance awarded by the State Council.

Mr. LI Yao, External Supervisor. Mr. Li has been an External Supervisor of the Bank since October 2017. Mr. Li has been teaching at the School of Finance, Shanghai University of Finance and Economics since April 2000 and has been Vice Professor and Professor successively. He served as Vice President of School of Finance from

December 2014 to January 2018. During the period from September 2002 to September 2003, Mr. Li served as Vice Professor in visiting scholar (CCSEP) program for the purpose of governmental exchange between Chinese and Canadian exchange at the University of Toronto Rotman. Mr. Li was appointed as Professor in the management buyout and private equity research center of Nottingham University Business School from August 2009 to January 2010. Mr. Li has been serving as Professor in visiting Sino-US Fulbright Scholar Program at Boston College from August 2018 to July 2019. Mr. Li also served as Independent Director of Chongqing Rural Commercial Bank Co. Ltd. from October 2014 to December 2015. Mr. Li majored in International Finance and graduated from East China Normal University with the title of Ph.D. in Economics in July 1998.

Mr. CHEN Hanwen, External Supervisor. Mr. Chen has been an External Supervisor of the Bank since April 2019. Mr. Chen is currently a Tier 2 Professor and UIBE (Hui Yuan) distinguished Professor of the University of International Business and Economics (UIBE), Doctoral Supervisor, Coordinator of postdoctoral programs, Chair Professor of China Business Executives Academy, Dalian, Co-editor-in-chief of China Journal of Accounting Studies published by the Accounting Society of China, Editorial Board Member of the Audit Research published by China Audit Society, Member of the Professional Title Assessment Committee of the National Audit Office, Member of the Professional Steering Committee of the Chinese Institute of Certified Public Accountants, Executive Director of China Audit Society and selected for Accounting Master Training Project by the Ministry of Finance. Mr. Chen worked as the Secretary General of the Academic Committee of Xiamen University from January 2014 to June 2015, the Vice President of the Graduate School from August 2012 to June 2015, the vice president of School of Management from June 2008 to August 2012, Dean of the Accounting Department of Xiamen University from May 2004 to December 2008, and received the prestigious Xiamen University Nanqiang Award for outstanding contributions. Mr. Chen currently acts as an Independent Director of Yango Group Co., Ltd (form April 2017 to April 2020), Dalian Wanda Commercial Properties (from May 2017 to March 2022), Beijing Sanyuan Gene Pharmacy Co. Ltd.(from November 2018 to November 2021), Xiamen International Bank (from May 2013 to May 2019) and Xiamen Bank (from January 2015 to January 2021). Mr. Chen acted as independent non-executive director of Industrial Securities from September 2011 to November 2017 and Minsheng Holdings from December 2015 to December 2017. Mr. Chen received his Doctoral degree in Economics from Xiamen University in 1997.

Mr. JU Jiandong, External Supervisor. Mr. Ju has been External Supervisor of the Bank since June 2020. Mr. Ju is currently a unigroup Chair Professor of PBC School of Finance in Tsinghua University, distinguished Professor under the Chang Jiang Scholars Programme of the Ministry of Education, and a distinguished Professor of the School of International Business Administration of Shanghai University of Finance and Economics. Mr. Ju Jiandong has served as an Independent Director of COFCO Meat Holdings Limited since November 2018. From March 2014 to September 2017, he worked as Dean and Professor of the School of International Business Administration of Shanghai University of Finance and Economics. From August 2009 to July 2015, he worked as a Professor at the School of Economics and Management of Tsinghua University. From May 2011 to August 2014, he worked as a (tenured) Professor of Economics at the University of Oklahoma. Mr. Ju Jiandong served as an Adviser to the World Bank in June and August 2009 and March 2011. From June 2007 to August 2009, he served as a Resident Scholar in the Research Department of the International Monetary Fund. Mr. Ju Jiandong received his Ph. D. in Economics from Pennsylvania State University in May 1995.

Mr. GUAN Xingshe, Employee Supervisor. Mr. Guan has been an Employee Supervisor of the Bank since October 2018 and Director of the Office of the Board of Supervisors since August 2018. From September 2011 to August 2018, Mr. Guan served as General Manager of Department of General Affairs of the Bank. Mr. Guan held various positions from May 2003 to September 2011, including Deputy Manager of Henan Branch (Zhengzhou), Secretary of the Commission for Discipline Inspection (from September 2007 to September 2011), Senior Credit Executive (from May 2006 to June 2008). He also held several positions from December 1994 to May 2003, including Deputy Division Chief of Finance and Accounting Department of Zhengzhou

Branch, Deputy Division Chief of Internal Audit Division (in charge of overall work), Deputy Director of Finance and Accounting Department (in charge of overall work), Division Chief of Finance and Accounting Department (during which he took a temporary post in Internal Audit Division of the Head Office from April 2002 to March 2003). From April 1993 to December 1994, Mr. Guan served as Deputy Division Chief of Financial Audit Department of Zhengzhou Audit Bureau. Mr. Guan obtained his Bachelor's Degree in Economics from Zhongnan University of Economics and Law in 1988 and his Master's Degree in Economics from Xiamen University in 1999.

Ms. LIN Zhihong, Employee Supervisor. Ms. Lin has been Employee Supervisor of the Bank since December 2020, Intermediate Accountant. Ms. Lin serves as Director of the Audit and Supervision Bureau of the Bank, Non-executive Director of BoCom International Holdings Company Limited, Supervisor of the BoCom Financial Asset Investment Co., Ltd. Ms. Lin obtained her Master's degree in Business Administration from Shanghai University of Finance and Economics in 2010.

Ms. FENG Bing, Employee Supervisor. Mr. Feng has been Employee Supervisor of the Bank since December 2020, and serves as Director of the Office of Labour Union of the Bank, Senior Economist. Ms. Feng held various positions in the Bank, including Deputy General Manager, Senior Manager of Structural Planning, Senior Manager of Performance Management (During the period, she served a temporary position in the Jiaxing Branch of the Bank as Executive Vice President) and Deputy Senior Manager of Performance Management of the Human Resource Department of the Bank's Head Office, and she also served as Deputy Head of Economic Research Office of the Development Research Department of the Bank's Head Office, serving the Bank for 20 years. Ms. Feng obtained her Master's degree in National Economics from University of Shanghai for Science and Technology in 2000.

On 11 November 2021, Ms. Po Ying was elected as an Employee Supervisor of the ninth session of the board of supervisors. Ms. Po's serving as an Employee Supervisor of the Bank takes effect from 11 November 2021 and shall end on the date of expiration of the term of office of the ninth session of the board of supervisors, and she is eligible for re-election. With effect from the same day, Ms. Po also serves as a member of the nomination committee of the ninth session of the board of supervisors. Ms. Po Ying's biographical details are as follows:

Ms. PO Ying, Employee Supervisor. Ms. Po, born in 1972, Chinese nationality, is a senior accountant. Ms. Po is currently the general manager of the Equity and Investment Management Department of the Bank, the Chairman of the board of supervisors of Bank of Communications International Trust Co., Ltd., a non-executive director of Bank of Communications Financial Leasing Co., Ltd., a non-executive director of Bank of Communications International Holdings Company Limited, and a non-executive director of Bank of Communications (Brazil) Co., Ltd. She was the deputy general manager of the Budget and Finance Department (Data and Information Management Center) of the head office of the Bank and concurrently served as a non-executive director of Bank of Communications International Trust Co., Ltd. Ms. Po also served as the vice president of Suzhou Branch of the Bank, senior manager of management accounting, senior manager of management accounting and pricing management, senior manager of management accounting and pricing of the Budget and Finance Department of the head office of the Bank, deputy director of the Management Accounting Division of the Financial Accounting (Budget Finance) Department of the head office of the Bank, deputy director of the Finance Division of the Financial Accounting Department of the head office of the Bank and deputy director and assistant director of the Planning Division of Nanning Branch of the Bank. Ms. Po has been serving the Bank for 25 years. She obtained a master's degree in economics from Southwestern University of Finance and Economics in 1996.

The board of supervisors of the Bank has resolved to propose to as a shareholder supervisor of the Bank, Chairman of the Board of Supervisors and Chairman of the Performance and Due Diligence Committee of the Board of Supervisors on 27 August 2021. The appointment of Mr. Xu as the shareholder Supervisor of the Bank is subject to the approval of the shareholders of the Bank at the general meeting of the Bank. Mr. Xu's serving as Chairman of the Board of Supervisors and Chairman of the special committee of the Board of Supervisors will be effective from the date when his appointment as a shareholder Supervisor is approved by the general meeting of shareholders. Mr. Xu Jiming's biographical details are as follows:

Mr. XU Jiming, born in 1966, Chinese nationality, is a senior auditor. Mr. Xu currently serves as the Deputy Secretary of the Party Committee of the Bank. Mr. Xu served as a member of the Party Group, Chief of the Discipline Inspection and Supervision Team, Chief of the Discipline Inspection Team of the Party Group of China National Petroleum Corporation. He also served in the National Audit Office of People's Republic of China as Director-General of the General Office, Director General of Administrative Audit Department, Director-General of Foreign Capital Utilization Audit Department, Director of the Audit Cadre Training Center, Director of the Hygiene and Medicine Audit Bureau, Deputy Director of the Hygiene and Medicine Audit Bureau, Deputy Director-General of Foreign Capital Utilization Audit Department, Commissioner Assistant of the Kunming Special Mission Office (Division Chief Level), Chief of the First Division of Foreign Capital Utilization Audit Department, Chief of the Comprehensive Division of Foreign Capital Utilization Audit Department, Deputy Division Level Auditor of the Second Division of Foreign Capital Utilization - 1 - Audit Department, Cadre of the Second Division of Foreign Capital Utilization Audit Department. Mr. Xu obtained his Doctoral degree in Economics from the School of Advanced Studies in the Social Sciences of Paris in 1995.

BOARD COMMITTEES

The Board of Directors set up Strategy Committee (Inclusive Finance Development Committee), Audit Committee, Risk Management and Related Party Transaction Control Committee, Personnel & Remuneration Committee and Social Responsibility (Environmental, Social and Governance) and Consumer Protection Committee. Thereinto, the Strategy Committee and Inclusive Finance Development Committee implemented "one institution, two titles"; the Risk Management and Related Party Transaction Control Committee assumed the responsibilities of the US Risk Management Committee; and the Personnel & Remuneration Committee performed the functions of both nomination and remuneration.

The Strategy Committee (Inclusive Finance Development Commission)

The Strategy Committee is primarily responsible for formulating the operations and management objectives as well as long-term development plans, regularly analysing and evaluating the results of capital management, conducting research and making recommendations on major equity investment plans. The committee supervises and inspects the implementation of the annual business plans, examines and assesses the implementation of corporate governance system. Furthermore, it formulates and reviews the strategic plans for the development of inclusive financial business and business operating plan, and also evaluates the achievements of inclusive finance business development. For the year ended 31 December 2020, the Committee held five meetings, reviewed and approved 26 proposals and reports including issuance of financial bonds and 2019 Strategy Implementation Report, and presented professional recommendations to the Board of Directors.

The Audit Committee

The Audit Committee is mainly responsible for proposing the appointments, change or removal of the Bank's auditors, monitoring internal audit system and the implementation, acting as the communication channel between internal and external auditors, reviewing financial information and disclosure, examining the accounting policies, financial position and financial reporting procedures and monitoring the implementation of internal controls. For the year ended 31 December 2020, the Committee held five meetings, reviewed and approved 27 proposals and reports, including Periodic Financial Announcement and Articles of Internal Audit. When performing duties, the Committee strictly complied with the listing rules and accounting standards to express opinions on the authenticity, completeness and accuracy of the Bank's financial information, further enhanced the effectiveness of the Bank's internal control system, strengthened the management and supervision on external audit institutions, and presented professional recommendations to the Board of Directors.

The Risk Management and Related Party Transactions Control Committee

The Committee is primarily responsible for monitoring and evaluating the risk management and controls of the Bank in areas of credit, market, operations, compliance, case prevention, money laundering and terrorism financing; periodically assessing the risks, management status and risk tolerance level; supervising and evaluating the risk management of America-related operations, reviewing significant related party transactions, asset disposals, asset pledges or external guarantees; approving policies and procedures of money laundering risk management; reviewing anti-money laundering reports regularly, keeping abreast of major money laundering risk events and their resolutions, and evaluating the status of anti-money laundering risk management. For the year ended 31 December 2020, the Committee held seven meetings, reviewed and approved 26 proposals and reports, including Amendments to Working Guidance of the Committees and periodical Assessment Report of Comprehensive Risk Management, and presented professional recommendations to the Board of Directors.

The Personnel and Remuneration Committee

The Personnel & Remuneration Committee is primarily responsible for making recommendations to the Board of Directors on its scale and structure according to the operating results, the scale of assets and the structure of shareholding; approving and amending the policies on diversification of members of the Board of Directors; making recommendations to the Board of Directors on formulating the selection procedures and assessment criteria for the Bank's directors and senior management personnel and reviewing the basic systems and policies of remuneration management; proposing suggestions on the remuneration distribution plan of directors and senior management and submitting them to the Board of Directors for approval. The Personnel & Remuneration Committee performed the functions both as a Nomination Committee and a Remuneration Committee.

The Personnel & Remuneration Committee's nomination procedures for the directors and senior management of the Bank are as follows: Firstly, understand the Bank's demands for directors and senior management in time. Secondly, extensively search for candidates of directors and senior management. Thirdly, determine the initial candidates and obtain their agreements. Fourthly, convene the meetings of the Personnel & Remuneration Committee to conduct examinations for the qualification of the initial candidates. Fifthly, propose to the Board of Directors about the election of new directors and the appointment of new senior management. Sixthly, implement other following duties based on decisions and feedbacks of the Board of Directors.

For the year ended 31 December 2020, the Committee held six meetings and reviewed and approved 22 proposals including the appointment of Mr. Liu Jun as President and annual core performance appraisal targets for chief business officers, and presented professional recommendations to the Board of Directors.

The Social Responsibility (Environmental, Social and Governance) and Consumer Protection Committee

The Committee is primarily responsible for formulating the Bank's social responsibility strategies and policies, reviewing the achievements of the social responsibility targets and submitting the Annual Social Responsibility Report to the Board of Directors; researching and assessing the measures of the ESG performance and promoting ESG information disclosure; reviewing the strategies, policies and goals on protecting the consumers' rights, studying key issues and significant policies on consumer's rights protection, approving external donations; reviewing credit policies concerning environmental and sustainable development. For the year ended 31 December 2020, the Committee held five meetings and reviewed and approved 14 proposals and reports, including the renaming of the Committee, revision of the working rules of the Committee and the amount of annual external donation, and presented professional recommendations to the Board of Directors.

SUBSCRIPTION AND SALE

The European Economic Area and UK selling restriction under "***SUBSCRIPTION AND SALE – Selling Restrictions – Prohibition of Sales to European Economic Area and UK Retail Investors***" shall be deleted in its entirety and replaced with the following:

"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 this 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 "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.

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**");

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

(b) the expression "**offer**" includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes.

GENERAL INFORMATION

Except as disclosed in the Offering Circular, there has been no significant change in the financial or trading position of the Issuer or of the Group since 30 June 2021 and no material adverse change in the financial position or prospects of the Issuer or of the Group since 30 June 2021.

ISSUER

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Bank of Communications Co., Ltd.

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ARRANGER AND DEALER

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AUDITORS OF THE BANK

PricewaterhouseCoopers
Certified Public Accountants
Registered Public Interest Entity Auditor
22/F, Prince's Building
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Hong Kong

FISCAL AGENT AND PAYING AGENT

Bank of Communications Co., Ltd.
20 Pedder Street
Central
Hong Kong

REGISTRAR AND TRANSFER AGENT IN RESPECT OF EACH SERIES OF CMU NOTES

Bank of Communications Co., Ltd.
Hong Kong Branch
20 Pedder Street
Central
Hong Kong

CMU LODGING AND PAYING AGENT

Bank of Communications Co., Ltd.
Hong Kong Branch
20 Pedder Street
Central
Hong Kong

REGISTRAR AND TRANSFER AGENT IN RESPECT OF EACH SERIES OF NOTES OTHER THAN CMU NOTES

Bank of Communications Co., Ltd.
Hong Kong Branch
20 Pedder Street
Central
Hong Kong

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To the Issuer as to PRC law

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Shanghai 200031
PRC

To the Arranger and Dealer as to PRC law

JunHe LLP
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Beijing 100005
PRC

Appendix 3
Pricing Supplements dated 6 December 2021

IMPORTANT NOTICE

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

"**Bond Connect**"

The Notes are eligible for trading through the Southbound Trading Link of the "Bond Connect" regime. PRC investors participating in the subscription of the Notes through the "Bond Connect" regime should, in connection with the registration, trading, custody, clearing, settlement of the Notes and remittance and conversion of funds, comply with applicable laws and regulations of the PRC and Hong Kong, including the Interim Measures for the Administration of the Connection and Cooperation between the Mainland and the Hong Kong Bond Market (内地与香港债券市场互联互通合作管理暂行办法) and the Notice on the Launch of Southbound Cooperation on the Interconnection of Bond Markets between the Mainland and Hong Kong (关于开展内地与香港债券市场互联互通南向合作的通知) published by the People's Bank of China (PBOC), as well as rules and regulations by other relevant parties.

Pricing Supplement dated 6 December 2021

Bank of Communications Co., Ltd. Hong Kong Branch

Legal Entity Identifier of Bank of Communications Co., Ltd.: 549300AX1UM10U30HK09

Issue of CNY1,000,000,000 3.15 per cent. Notes due 2024 (the "Notes")
under the U.S.$12,000,000,000 Medium Term Note Programme (the "Programme")

This document constitutes the Pricing Supplement relating to the issue of Notes described herein. Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Offering Circular dated 14 December 2020 (the "**Offering Circular**") and the Supplemental Offering Circular dated 6 December 2021 (the "**Supplemental Offering Circular**", together with the Offering Circular, the "**Offering Circulars**").

The parties have agreed to enter into a second supplemental fiscal agency agreement dated on or about 13 December 2021 in respect of the Notes, which makes certain modifications to the existing fiscal agency agreements between Bank of Communications Co., Ltd. Hong Kong Branch, Bank of Communications Co., Ltd. Hong Kong Branch as initial Fiscal Agent, CMU Lodging and Paying Agent, Registrar and the other agents named in it relating to the Programme.

This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with such Offering Circulars as so supplemented. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of the Offering Circulars and this Pricing Supplement.

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

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

The Stock Exchange of Hong Kong Limited has not reviewed the contents of this Pricing Supplement, other than to ensure that the prescribed form disclaimer and responsibility

statements, and a statement limiting distribution of this Pricing Supplement to Professional Investors only have been reproduced in this Pricing Supplement. Listing of the Programme and the Notes on The Stock Exchange of Hong Kong Limited is not to be taken as an indication of the commercial merits or credit quality of the Programme, the Notes, the Issuer, or quality of disclosure in this Pricing Supplement. Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this Pricing Supplement, 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 Pricing Supplement.

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

1	Issuer:		Bank of Communications Co., Ltd. Hong Kong Branch
2	(i)	Series Number:	37
	(ii)	Tranche Number:	01
	(iii)	Date on which the Notes will be consolidated and form a single Series:	Not Applicable
3	Specified Currency or Currencies:		Renminbi (“CNY”)
4	Aggregate Nominal Amount:		CNY1,000,000,000
5	Issue Price:		100.00 per cent. of the Aggregate Nominal Amount
	Gross proceeds		CNY1,000,000,000
6	Use of Proceeds:		The net proceeds of the issue of the Notes will be used for the Issuer’s working capital and general corporate purposes
7	(i)	Specified Denominations:	CNY1,000,000 and integral multiples of CNY10,000 in excess thereof
	(ii)	Calculation Amount:	CNY10,000
8	(i)	Issue Date:	13 December 2021
	(ii)	Interest Commencement Date:	Issue Date

9	Maturity Date:	Interest Payment Date falling in or nearest to 13 December 2024
10	Interest Basis:	3.15 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	(i) Status of the Notes:	Senior Notes
	(ii) Regulatory approval for issuance of Notes obtained:	Quota approval from the National Development and Reform Commission of the PRC obtained on 1 September 2021
15	Listing:	The Stock Exchange of Hong Kong Limited on 14 December 2021
16	Method of distribution:	Syndicated
17	Private Bank Rebate/Commission:	Not Applicable

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

18	Fixed Rate Note Provisions	Applicable
	(i) Rate of Interest:	3.15 per cent. per annum payable semi-annually in arrear
	(ii) Interest Payment Date(s):	13 June and 13 December in each year, commencing on 13 June 2022 until the Maturity Date, adjusted in accordance with the Modified Following Business Day Convention
	(iii) Fixed Coupon Amount(s):	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 being rounded upwards)
	(iv) Broken Amount:	Not Applicable
	(v) Day Count Fraction (Condition 5(j)):	Actual/365 (Fixed)
	(vi) Determination Date(s) (Condition 5(j)):	Not Applicable
	(vii) Other terms relating to the method of calculating interest for Fixed Rate Notes:	Not Applicable
19	Floating Rate Note Provisions	Not Applicable
20	Zero Coupon Note Provisions	Not Applicable

21	Index Linked Interest Note Provisions	Not Applicable
22	Dual Currency Note Provisions	Not Applicable

PROVISIONS RELATING TO REDEMPTION

23	Call Option	Not Applicable
24	Put Option	Not Applicable
25	Final Redemption Amount of each Note	CNY10,000 per Calculation Amount
26	Early Redemption Amount	
	(i) Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons (Condition 6(c)) or Event of Default (Condition 10) and/or the method of calculating the same (if required or if different from that set out in the Conditions):	CNY10,000

GENERAL PROVISIONS APPLICABLE TO THE NOTES

27	Form of Notes:	Registered Notes Global Certificate exchangeable for Definitive Certificates in the limited circumstances specified in the Global Certificate
28	Financial Centre(s) (Condition 7(h)) or other special provisions relating to payment dates:	Not Applicable
29	Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature):	No
30	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
31	Details relating to Instalment Notes:	Not Applicable
32	Redenomination, renominalisation and reconventioning provisions:	Not Applicable
33	Consolidation provisions:	Not Applicable
34	Other terms or special conditions:	Refer to Schedule 1

DISTRIBUTION

35	(i) If syndicated, names of Managers:	*Joint Global Coordinators, Joint Lead Managers and Joint Bookrunners* Bank of Communications Co., Ltd. Hong Kong

		Branch Bank of China Limited Bank of China (Hong Kong) Limited China Construction Bank (Asia) Corporation Limited China Everbright Bank Co., Ltd., Hong Kong Branch China International Capital Corporation Hong Kong Securities Limited CLSA Limited The Hongkong and Shanghai Banking Corporation Limited Industrial and Commercial Bank of China (Asia) Limited Industrial Bank Co., Ltd. Hong Kong Branch Shanghai Pudong Development Bank Co., Ltd., Hong Kong Branch Standard Chartered Bank
	(ii) Stabilisation Manager (if any):	Any of the Managers appointed and acting in its capacity as stabilisation manager
36	If non-syndicated, name of Dealer:	Not Applicable
37	U.S. Selling Restrictions	Reg. S Category 1; TEFRA Not Applicable
38	Additional selling restrictions:	Refer to Schedule 2
39	Prohibition of Sales to EEA Retail Investors:	Not Applicable
40	Prohibition of Sales to UK Retail Investors:	Not Applicable

OPERATIONAL INFORMATION

41	ISIN Code:	HK0000732799
42	Common Code:	235093138
43	CMU Instrument Number:	BCMKFN21001
44	Any clearing system(s) other than Euroclear, Clearstream and the CMU Service and the relevant identification number(s):	Not Applicable
45	Delivery:	Delivery against payment
46	Additional Paying Agents (if any):	Not Applicable
47	Rating:	The Notes to be issued are expected to be rated: S&P: A-

GENERAL

48	The aggregate principal amount of Notes issued has been translated into US dollars at the rate of CNY6.3785 = US$1.00, producing a sum of (for Notes not denominated in US dollars):	US$156,776,672
49	In the case of Registered Notes, specify the location of the office of the Registrar if other than Hong Kong:	Not Applicable
50	In the case of Bearer Notes, specify the location of the office of the Fiscal Agent if other than London:	Not Applicable

LISTING APPLICATION

This Pricing Supplement comprises the final terms required to list the issue of Notes described herein pursuant to the US$12,000,000,000 Medium Term Note Programme of Bank of Communications Co., Ltd. Hong Kong Branch.

RESPONSIBILITY

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

Signed on behalf of

BANK OF COMMUNICATIONS CO., LTD. HONG KONG BRANCH

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

By: ______________________________

Duly authorised

SCHEDULE 1

This Appendix sets out the special conditions referred to in Item 34 (*Other terms or special conditions*)

1. Payments and Talons

Condition 7(a) and 7(b) shall be amended and restated as follows with respect to the Notes:

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

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

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

(iii) In this Condition 7(a), "Bank" means a bank in the principal financial centre for such currency or, in the case of euro, in a city in which banks have access to the TARGET System.

Payments of principal and interest in respect of Bearer Notes held in the CMU will be made to the CMU for their distribution to the person(s) for whose account(s) interests in the relevant Bearer Note are credited as being held with the CMU in accordance with the CMU Rules (as defined in the Agency Agreement) at the relevant time and payment made in accordance thereof shall discharge the obligations of the Issuer in respect of that payment.

(a) **Registered Notes**:

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

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

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

(B) in the case of Notes denominated in Renminbi, by transfer to the registered account of the Noteholder.

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

Payments of principal and interest in respect of Registered Notes held in the CMU will be made to the person(s) for whose account(s) interests in the relevant Registered Note are credited as being held with the CMU in accordance with the CMU Rules at the relevant time and payment made in accordance thereof shall discharge the obligations of the Issuer in respect of that payment."

SCHEDULE 2

The Offering Circular is hereby supplemented with the following information, which shall be deemed to be incorporated in, and to form part of, the Offering Circular. Save as otherwise defined herein, terms defined in the Offering Circular have the same meaning when used in this Schedule.

SUBSCRIPTION AND SALE

The paragraph entitled "PRC" of the Offering Circular on page 182 shall be deleted in its entirety and replaced with the following:

PRC

Each of the Managers represented and agreed that the Notes are not being offered or sold and may not be offered or sold, directly or indirectly, in the People's Republic of China (for such purposes, not including the Hong Kong and Macau Special Administrative Regions or Taiwan) (the "**PRC**"), except as permitted by applicable laws of the PRC.

The Notes are eligible for trading through the Southbound Trading Link of the "Bond Connect" regime. PRC investors participating in the subscription of the Notes through the "Bond Connect" regime should, in connection with the registration, trading, custody, clearing, settlement of the Notes and remittance and conversion of funds, comply with applicable laws and regulations of the PRC, including but not limited to the Interim Measures for the Administration of the Connection and Cooperation between the Mainland and the Hong Kong Bond Market (内地与香港债券市场互联互通合作管理暂行办法) published by the People's Bank of China (PBOC), the Notice on the Launch of Southbound Cooperation on the Interconnection of Bond Markets between the Mainland and Hong Kong (关于开展内地与香港债券市场互联互通南向合作的通知) published by PBOC, National Interbank Funding Center Southbound Bond Connect Transaction Rules (全国银行间同业拆借中心债券通"南向通"交易规则) published by National Interbank Funding Center, Detailed Rules for the Implementation of the Mainland China and Hong Kong Bond Market Connectivity Southbound Cooperation Business (内地与香港债券市场互联互通南向合作业务实施细则) and Guide for the Implementation of the Mainland China and Hong Kong Bond Market Connectivity Southbound Cooperation Business (内地与香港债券市场互联互通南向合作业务指南) published by Shanghai Clearing House, as well as rules and regulations by other relevant parties.

SCHEDULE 3

The Offering Circular is hereby supplemented with the following information, which shall be deemed to be incorporated in, and to form part of, the Offering Circular. Save as otherwise defined herein, terms defined in the Offering Circular have the same meaning when used in this Schedule.

TAXATION

The paragraph entitled "PRC Taxation" of the Offering Circular on page 164 shall be deleted in its entirety and replaced with the following

General

In considering whether to invest in the Notes, potential purchasers should consult their individual tax advisers 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.

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. Reference is made to PRC taxes from the taxable year beginning on or after 1 January 2008.

Pursuant to the New Enterprise Income Tax Law and its implementation regulations, enterprises that are established under laws of foreign countries and regions (including Hong Kong, Macau and Taiwan) but whose "de facto management bodies" are within the territory of the PRC shall be PRC tax resident enterprises for the purpose of the New Enterprise Income Tax Law and they shall pay enterprise income tax at the rate of 25 per cent. in respect of their income sourced from both within and outside the PRC. If relevant PRC tax authorities decide, in accordance with applicable tax rules and regulations, that the "de facto management body" of the Issuer is within the territory of the PRC, the Issuer may be held to be a PRC tax resident enterprise for the purpose of the New Enterprise Income Tax Law and be subject to enterprise income tax at the rate of 25 per cent. for its income sourced from both within and outside PRC. As confirmed by the Issuer, as at the date of this Offering Circular, the Issuer has not been notified or informed by the PRC tax authorities that it is considered as a PRC tax resident enterprise for the purpose of the New Enterprise Income Tax Law. On that basis, holders of the Notes will not be subject to withholding tax, income tax or any other taxes or duties (including stamp duty) imposed by any governmental authority in the PRC in respect of the holding of the Notes or any repayment of principal and payment of interest made thereon.

However, there is no assurance that the Issuer will not be treated as a PRC tax resident enterprise under the New Enterprise Income Tax Law and related implementation regulations in the future. If the Issuer is treated as a PRC tax resident enterprise, the interest payable by the Issuer may be considered as income sourced inside the PRC. Pursuant to the New Enterprise Income Tax Law and its implementation regulations, any non-resident enterprise without establishment within the PRC or its income has no actual connection to its establishment inside the PRC may be subject to enterprise income tax at the rate of 10 per cent. on the passive incomes including interest payable sourced inside the PRC unless a lower tax treaty rate applies. Similarly, pursuant to the PRC Individual Income Tax Law, any non-resident individual Noteholders may be subject to individual income tax at the rate of 20 per cent. on the interest payable, which may be further decreased by an applicable tax treaty. Such income tax shall be withheld at source by the PRC entity making payment, who shall be obliged to withhold the tax amount from each payment or payment due. Accordingly, in the event the Issuer is deemed to be a PRC tax resident enterprise by the PRC tax authorities in the future, the Issuer shall withhold income tax from the payments of interest in respect of the Notes for any non-PRC enterprise and individual Noteholders. However, notwithstanding the potential withholding of PRC tax by the Issuer, the Issuer has agreed to pay additional amounts to holders of the Notes so that holders of the Notes would receive the full amount of the scheduled payment, as further set out in the Terms and Conditions of the Notes.

Non-PRC Noteholders will not be subject to the PRC tax on any capital gains derived from a sale or exchange of Notes consummated outside Mainland China between non-PRC Noteholders, except however, if the Issuer is treated as a PRC tax resident enterprise under the New Enterprise Income Tax Law and related implementation regulations in the future, any gain realised by the non-PRC enterprise Noteholders from the transfer of the Notes may be regarded as being derived from sources within the PRC and accordingly would be subject to up to 10 per cent. of PRC withholding tax unless decreased or exempted by an applicable tax treaty. Further, non-PRC individual Noteholders may be subject to individual income tax at the rate of 20 per cent. on the capital gains, which may be decreased or exempted by an applicable tax treaty.

Taxation relating to "Bond Connect"

According to the Enterprise Income Tax Law of the PRC and its implementation rules ("**EIT**"), PRC investors participating in the subscription of the Notes through the Southbound Trading Link of the "Bond Connect" regime ("**PRC Investors**") shall be subject to income tax for the interest income received from the Notes held by them and for gains received from the transfer or sale of the Notes. Such income shall be included in such PRC Investors' revenues recognised in the respective period, income tax on which is generally assessed at the rate of 25%.

The Notice of Taxation on Full Launch of the Pilot Scheme on Levying Value-added Tax in Place of Business Tax issued by the Ministry of Finance and the State Administration of Taxation (Caishui [2016] No.36) ("**Circular 36**"), which became effective on 1 May 2016, provides that, business tax will be completely replaced by Value-added tax ("**VAT**"). 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 services within Mainland China shall be subject to VAT. The services are treated as being provided within Mainland China where either the service provider or the service recipient is located in Mainland 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, PRC Investors participating in the subscription of the Notes through the Southbound Trading Link of the "Bond Connect" regime are likely to be treated as the PRC Investors providing loans to the Issuer, which thus shall be regarded as financial services. Further, given that the PRC Investors are located in the PRC, the PRC Investors may be regarded as providing the financial services within Mainland China and consequently, be subject to VAT at the rate of 6 per cent. plus local levies and surcharges on the interests received from the Notes. Similarly, any gain derived from transfer of the Notes by the PRC Investors may also be subject to VAT.

However, as the Southbound Trading Link of the "Bond Connect" is a new mutual market access platform to allow PRC resident investors to access offshore bond markets, the PRC tax considerations, including EIT, VAT and stamp duty (as described below), may be subject to change and interpretation by the PRC tax authorities.

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) of a Note.

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

"**Bond Connect**"

The Notes are eligible for trading through the Southbound Trading Link of the "Bond Connect" regime. PRC investors participating in the subscription of the Notes through the "Bond Connect" regime should, in connection with the registration, trading, custody, clearing, settlement of the Notes and remittance and conversion of funds, comply with applicable laws and regulations of the PRC and Hong Kong, including the Interim Measures for the Administration of the Connection and Cooperation between the Mainland and the Hong Kong Bond Market (内地与香港债券市场互联互通合作管理暂行办法) and the Notice on the Launch of Southbound Cooperation on the Interconnection of Bond Markets between the Mainland and Hong Kong (关于开展内地与香港债券市场互联互通南向合作的通知) published by the People's Bank of China (PBOC), as well as rules and regulations by other relevant parties.

Pricing Supplement dated 6 December 2021

Bank of Communications Co., Ltd. Hong Kong Branch

Legal Entity Identifier of Bank of Communications Co., Ltd.: 549300AX1UM10U30HK09

Issue of HKD1,200,000,000 0.95 per cent. Notes due 2023 (the "Notes")
under the U.S.$12,000,000,000 Medium Term Note Programme (the "Programme")

This document constitutes the Pricing Supplement relating to the issue of Notes described herein. Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Offering Circular dated 14 December 2020 (the "**Offering Circular**") and the Supplemental Offering Circular dated 6 December 2021 (the "**Supplemental Offering Circular**", together with the Offering Circular, the "**Offering Circulars**").

The parties have agreed to enter into a second supplemental fiscal agency agreement dated on or about 13 December 2021 in respect of the Notes, which makes certain modifications to the existing fiscal agency agreements between Bank of Communications Co., Ltd. Hong Kong Branch, Bank of Communications Co., Ltd. Hong Kong Branch as initial Fiscal Agent, CMU Lodging and Paying Agent, Registrar and the other agents named in it relating to the Programme.

This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with such Offering Circulars as so supplemented. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of the Offering Circulars and this Pricing Supplement.

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

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

The Stock Exchange of Hong Kong Limited has not reviewed the contents of this Pricing Supplement, other than to ensure that the prescribed form disclaimer and responsibility

statements, and a statement limiting distribution of this Pricing Supplement to Professional Investors only have been reproduced in this Pricing Supplement. Listing of the Programme and the Notes on The Stock Exchange of Hong Kong Limited is not to be taken as an indication of the commercial merits or credit quality of the Programme, the Notes, the Issuer, or quality of disclosure in this Pricing Supplement. Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this Pricing Supplement, 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 Pricing Supplement.

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

1	Issuer:		Bank of Communications Co., Ltd. Hong Kong Branch
2	(i)	Series Number:	38
	(ii)	Tranche Number:	01
	(iii)	Date on which the Notes will be consolidated and form a single Series:	Not Applicable
3	Specified Currency or Currencies:		Hong Kong Dollars ("HKD")
4	Aggregate Nominal Amount:		HKD1,200,000,000
5	Issue Price:		100.00 per cent. of the Aggregate Nominal Amount
	Gross proceeds		HKD1,200,000,000
6	Use of Proceeds:		The net proceeds of the issue of the Notes will be used for the Issuer's working capital and general corporate purposes
7	(i)	Specified Denominations:	HKD1,000,000 and integral multiples of HKD500,000 in excess thereof
	(ii)	Calculation Amount:	HKD500,000
8	(i)	Issue Date:	13 December 2021
	(ii)	Interest Commencement Date:	Issue Date

9	Maturity Date:	Interest Payment Date falling in or nearest to 13 December 2023
10	Interest Basis:	0.95 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	(i) Status of the Notes:	Senior Notes
	(ii) Regulatory approval for issuance of Notes obtained:	Quota approval from the National Development and Reform Commission of the PRC obtained on 1 September 2021
15	Listing:	The Stock Exchange of Hong Kong Limited on 14 December 2021
16	Method of distribution:	Syndicated
17	Private Bank Rebate/Commission:	Not Applicable

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

18	Fixed Rate Note Provisions	Applicable
	(i) Rate of Interest:	0.95 per cent. per annum payable annually in arrear
	(ii) Interest Payment Date(s):	13 December in each year, commencing on 13 December 2022 until the Maturity Date, adjusted in accordance with the Modified Following Business Day Convention
	(iii) Fixed Coupon Amount(s):	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 HKD0.01 (HKD0.005 being rounded upwards)
	(iv) Broken Amount:	Not Applicable
	(v) Day Count Fraction (Condition 5(j)):	Actual/365 (Fixed)
	(vi) Determination Date(s) (Condition 5(j)):	Not Applicable
	(vii) Other terms relating to the method of calculating interest for Fixed Rate Notes:	Not Applicable
19	Floating Rate Note Provisions	Not Applicable
20	Zero Coupon Note Provisions	Not Applicable

21	Index Linked Interest Note Provisions	Not Applicable
22	Dual Currency Note Provisions	Not Applicable

PROVISIONS RELATING TO REDEMPTION

23	Call Option	Not Applicable
24	Put Option	Not Applicable
25	Final Redemption Amount of each Note	HKD500,000 per Calculation Amount
26	Early Redemption Amount	
	(i) Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons (Condition 6(c)) or Event of Default (Condition 10) and/or the method of calculating the same (if required or if different from that set out in the Conditions):	HKD500,000

GENERAL PROVISIONS APPLICABLE TO THE NOTES

27	Form of Notes:	Registered Notes Global Certificate exchangeable for Definitive Certificates in the limited circumstances specified in the Global Certificate
28	Financial Centre(s) (Condition 7(h)) or other special provisions relating to payment dates:	Not Applicable
29	Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature):	No
30	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
31	Details relating to Instalment Notes:	Not Applicable
32	Redenomination, renominalisation and reconventioning provisions:	Not Applicable
33	Consolidation provisions:	Not Applicable
34	Other terms or special conditions:	Refer to Schedule 1

DISTRIBUTION

35	(i) If syndicated, names of Managers:	*Joint Global Coordinators, Joint Lead Managers and Joint Bookrunners* Bank of Communications Co., Ltd. Hong Kong

		Branch Agricultural Bank of China Limited Hong Kong Branch Bank of China Limited Bank of China (Hong Kong) Limited China Construction Bank (Asia) Corporation Limited China Minsheng Banking Corp., Ltd., Hong Kong Branch Crédit Agricole Corporate and Investment Bank The Hongkong and Shanghai Banking Corporation Limited Industrial Bank Co., Ltd. Hong Kong Branch Standard Chartered Bank
	(ii) Stabilisation Manager (if any):	Any of the Managers appointed and acting in its capacity as stabilisation manager
36	If non-syndicated, name of Dealer:	Not Applicable
37	U.S. Selling Restrictions	Reg. S Category 1; TEFRA Not Applicable
38	Additional selling restrictions:	Refer to Schedule 2
39	Prohibition of Sales to EEA Retail Investors:	Not Applicable
40	Prohibition of Sales to UK Retail Investors:	Not Applicable

OPERATIONAL INFORMATION

41	ISIN Code:	HK0000778024
42	Common Code:	238842581
43	CMU Instrument Number:	BCMKFN21004
44	Any clearing system(s) other than Euroclear, Clearstream and the CMU Service and the relevant identification number(s):	Not Applicable
45	Delivery:	Delivery against payment
46	Additional Paying Agents (if any):	Not Applicable
47	Rating:	The Notes to be issued are expected to be rated: S&P: A-

GENERAL

48	The aggregate principal amount of Notes issued has been translated into US dollars at the rate of HKD7.8003 = US$1.00, producing	US$153,840,236

	a sum of (for Notes not denominated in US dollars):	
49	In the case of Registered Notes, specify the location of the office of the Registrar if other than Hong Kong:	Not Applicable
50	In the case of Bearer Notes, specify the location of the office of the Fiscal Agent if other than London:	Not Applicable

LISTING APPLICATION

This Pricing Supplement comprises the final terms required to list the issue of Notes described herein pursuant to the US$12,000,000,000 Medium Term Note Programme of Bank of Communications Co., Ltd. Hong Kong Branch.

RESPONSIBILITY

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

Signed on behalf of

BANK OF COMMUNICATIONS CO., LTD. HONG KONG BRANCH

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

By: ______________________________________

Duly authorised

SCHEDULE 1

This Appendix sets out the special conditions referred to in Item 34 (*Other terms or special conditions*)

1. Payments and Talons

Condition 7(a) and 7(b) shall be amended and restated as follows with respect to the Notes:

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

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

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

(iii) In this Condition 7(a), "Bank" means a bank in the principal financial centre for such currency or, in the case of euro, in a city in which banks have access to the TARGET System.

Payments of principal and interest in respect of Bearer Notes held in the CMU will be made to the CMU for their distribution to the person(s) for whose account(s) interests in the relevant Bearer Note are credited as being held with the CMU in accordance with the CMU Rules (as defined in the Agency Agreement) at the relevant time and payment made in accordance thereof shall discharge the obligations of the Issuer in respect of that payment.

(a) **Registered Notes**:

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

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

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

(B) in the case of Notes denominated in Renminbi, by transfer to the registered account of the Noteholder.

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

Payments of principal and interest in respect of Registered Notes held in the CMU will be made to the person(s) for whose account(s) interests in the relevant Registered Note are credited as being held with the CMU in accordance with the CMU Rules at the relevant time and payment made in accordance thereof shall discharge the obligations of the Issuer in respect of that payment."

SCHEDULE 2

The Offering Circular is hereby supplemented with the following information, which shall be deemed to be incorporated in, and to form part of, the Offering Circular. Save as otherwise defined herein, terms defined in the Offering Circular have the same meaning when used in this Schedule.

SUBSCRIPTION AND SALE

The paragraph entitled "PRC" of the Offering Circular on page 182 shall be deleted in its entirety and replaced with the following:

PRC

Each of the Managers represented and agreed that the Notes are not being offered or sold and may not be offered or sold, directly or indirectly, in the People's Republic of China (for such purposes, not including the Hong Kong and Macau Special Administrative Regions or Taiwan) (the "**PRC**"), except as permitted by applicable laws of the PRC.

The Notes are eligible for trading through the Southbound Trading Link of the "Bond Connect" regime. PRC investors participating in the subscription of the Notes through the "Bond Connect" regime should, in connection with the registration, trading, custody, clearing, settlement of the Notes and remittance and conversion of funds, comply with applicable laws and regulations of the PRC, including but not limited to the Interim Measures for the Administration of the Connection and Cooperation between the Mainland and the Hong Kong Bond Market (内地与香港债券市场互联互通合作管理暂行办法) published by the People's Bank of China (PBOC), the Notice on the Launch of Southbound Cooperation on the Interconnection of Bond Markets between the Mainland and Hong Kong (关于开展内地与香港债券市场互联互通南向合作的通知) published by PBOC, National Interbank Funding Center Southbound Bond Connect Transaction Rules (全国银行间同业拆借中心债券通"南向通"交易规则) published by National Interbank Funding Center, Detailed Rules for the Implementation of the Mainland China and Hong Kong Bond Market Connectivity Southbound Cooperation Business (内地与香港债券市场互联互通南向合作业务实施细则) and Guide for the Implementation of the Mainland China and Hong Kong Bond Market Connectivity Southbound Cooperation Business (内地与香港债券市场互联互通南向合作业务指南) published by Shanghai Clearing House, as well as rules and regulations by other relevant parties.

SCHEDULE 3

The Offering Circular is hereby supplemented with the following information, which shall be deemed to be incorporated in, and to form part of, the Offering Circular. Save as otherwise defined herein, terms defined in the Offering Circular have the same meaning when used in this Schedule.

TAXATION

The paragraph entitled "PRC Taxation" of the Offering Circular on page 164 shall be deleted in its entirety and replaced with the following

General

In considering whether to invest in the Notes, potential purchasers should consult their individual tax advisers 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.

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. Reference is made to PRC taxes from the taxable year beginning on or after 1 January 2008.

Pursuant to the New Enterprise Income Tax Law and its implementation regulations, enterprises that are established under laws of foreign countries and regions (including Hong Kong, Macau and Taiwan) but whose "de facto management bodies" are within the territory of the PRC shall be PRC tax resident enterprises for the purpose of the New Enterprise Income Tax Law and they shall pay enterprise income tax at the rate of 25 per cent. in respect of their income sourced from both within and outside the PRC. If relevant PRC tax authorities decide, in accordance with applicable tax rules and regulations, that the "de facto management body" of the Issuer is within the territory of the PRC, the Issuer may be held to be a PRC tax resident enterprise for the purpose of the New Enterprise Income Tax Law and be subject to enterprise income tax at the rate of 25 per cent. for its income sourced from both within and outside PRC. As confirmed by the Issuer, as at the date of this Offering Circular, the Issuer has not been notified or informed by the PRC tax authorities that it is considered as a PRC tax resident enterprise for the purpose of the New Enterprise Income Tax Law. On that basis, holders of the Notes will not be subject to withholding tax, income tax or any other taxes or duties (including stamp duty) imposed by any governmental authority in the PRC in respect of the holding of the Notes or any repayment of principal and payment of interest made thereon.

However, there is no assurance that the Issuer will not be treated as a PRC tax resident enterprise under the New Enterprise Income Tax Law and related implementation regulations in the future. If the Issuer is treated as a PRC tax resident enterprise, the interest payable by the Issuer may be considered as income sourced inside the PRC. Pursuant to the New Enterprise Income Tax Law and its implementation regulations, any non-resident enterprise without establishment within the PRC or its income has no actual connection to its establishment inside the PRC may be subject to enterprise income tax at the rate of 10 per cent. on the passive incomes including interest payable sourced inside the PRC unless a lower tax treaty rate applies. Similarly, pursuant to the PRC Individual Income Tax Law, any non-resident individual Noteholders may be subject to individual income tax at the rate of 20 per cent. on the interest payable, which may be further decreased by an applicable tax treaty. Such income tax shall be withheld at source by the PRC entity making payment, who shall be obliged to withhold the tax amount from each payment or payment due. Accordingly, in the event the Issuer is deemed to be a PRC tax resident enterprise by the PRC tax authorities in the future, the Issuer shall withhold income tax from the payments of interest in respect of the Notes for any non-PRC enterprise and individual Noteholders. However, notwithstanding the potential withholding of PRC tax by the Issuer, the Issuer has agreed to pay additional amounts to holders of the Notes so that holders of the Notes would receive the full amount of the scheduled payment, as further set out in the Terms and Conditions of the Notes.

Non-PRC Noteholders will not be subject to the PRC tax on any capital gains derived from a sale or exchange of Notes consummated outside Mainland China between non-PRC Noteholders, except however, if the Issuer is treated as a PRC tax resident enterprise under the New Enterprise Income Tax Law and related implementation regulations in the future, any gain realised by the non-PRC enterprise Noteholders from the transfer of the Notes may be regarded as being derived from sources within the PRC and accordingly would be subject to up to 10 per cent. of PRC withholding tax unless decreased or exempted by an applicable tax treaty. Further, non-PRC individual Noteholders may be subject to individual income tax at the rate of 20 per cent. on the capital gains, which may be decreased or exempted by an applicable tax treaty.

Taxation relating to "Bond Connect"

According to the Enterprise Income Tax Law of the PRC and its implementation rules ("**EIT**"), PRC investors participating in the subscription of the Notes through the Southbound Trading Link of the "Bond Connect" regime ("**PRC Investors**") shall be subject to income tax for the interest income received from the Notes held by them and for gains received from the transfer or sale of the Notes. Such income shall be included in such PRC Investors' revenues recognised in the respective period, income tax on which is generally assessed at the rate of 25%.

The Notice of Taxation on Full Launch of the Pilot Scheme on Levying Value-added Tax in Place of Business Tax issued by the Ministry of Finance and the State Administration of Taxation (Caishui [2016] No.36) ("**Circular 36**"), which became effective on 1 May 2016, provides that, business tax will be completely replaced by Value-added tax ("**VAT**"). 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 services within Mainland China shall be subject to VAT. The services are treated as being provided within Mainland China where either the service provider or the service recipient is located in Mainland 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, PRC Investors participating in the subscription of the Notes through the Southbound Trading Link of the "Bond Connect" regime are likely to be treated as the PRC Investors providing loans to the Issuer, which thus shall be regarded as financial services. Further, given that the PRC Investors are located in the PRC, the PRC Investors may be regarded as providing the financial services within Mainland China and consequently, be subject to VAT at the rate of 6 per cent. plus local levies and surcharges on the interests received from the Notes. Similarly, any gain derived from transfer of the Notes by the PRC Investors may also be subject to VAT.

However, as the Southbound Trading Link of the "Bond Connect" is a new mutual market access platform to allow PRC resident investors to access offshore bond markets, the PRC tax considerations, including EIT, VAT and stamp duty (as described below), may be subject to change and interpretation by the PRC tax authorities.

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) of a Note.