Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement and the listing document referred to herein, make no representation as to their 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 announcement and the listing documents referred to herein.

*This announcement is for information purposes only and does not constitute or form a part of any offer of securities for sale in the United States. Unless otherwise specified, the securities have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**"), or the securities laws of any state of the United States or other jurisdiction and the securities may not be offered or sold within the United States absent registration or an exemption from registration under the Securities Act.*

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

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

NOTICE OF THE PUBLICATION OF OFFERING CIRCULAR ON THE STOCK EXCHANGE OF HONG KONG LIMITED

中国建设银行
China Construction Bank

中國建設銀行股份有限公司
China Construction Bank Corporation

(the "Bank")

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

(Stock Code: 939)

U.S.$2,000,000,000 Tier 2 Dated Capital Bonds due 2032 (the "Bonds")
(Stock Code: 4432)

Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers

CCB International	**China International Capital Corporation**	**Citigroup**	**Deutsche Bank**

Joint Bookrunners and Joint Lead Managers

China Construction Bank (Asia)	**China Construction Bank (Europe) S.A.**	**CCB Singapore**	**BNP PARIBAS**
CLSA	**Crédit Agricole CIB**	**HSBC**	**Standard Chartered Bank**

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

Please refer to the offering circular dated 13 January 2022 (the "**Offering Circular**") appended hereto in relation to the Bonds which has an applicable initial fixed interest rate of 2.85 per cent. per annum. As disclosed in the Offering Circular, the Bonds are intended for purchase by professional investors (as defined in Chapter 37 of the Listing Rules) only and have been listed on the Hong Kong Stock Exchange on that basis.

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

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

By Order of the Board of Directors
China Construction Bank Corporation
Wang Jiang
Vice Chairman, Executive Director and President

24 January 2022

As at the date of this announcement, the executive directors of the Bank are Mr. Tian Guoli and Mr. Wang Jiang; the non-executive directors of the Bank are Mr. Xu Jiandong, Mr. Zhang Qi, Mr. Tian Bo, Mr. Xia Yang, Ms. Shao Min and Ms. Liu Fang; and the independent non-executive directors of the Bank are Sir Malcolm Christopher McCarthy, Mr. Kenneth Patrick Chung, Mr. Graeme Wheeler, Mr. Michel Madelain, Mr. William Coen and Mr. Leung Kam Chung, Antony.

APPENDIX

OFFERING CIRCULAR DATED 13 JANUARY 2022

IMPORTANT NOTICE

NOT FOR DISTRIBUTION DIRECTLY OR INDIRECTLY IN OR INTO THE UNITED STATES

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

Confirmation of Your Representation: You have accessed the attached document on the basis that you have confirmed your representation to China Construction Bank Corporation（中國建設銀行股份有限公司）(the "**Bank**") and CCB International Capital Limited, China International Capital Corporation Hong Kong Securities Limited, Citigroup Global Markets Limited, Deutsche Bank AG, Hong Kong Branch, China Construction Bank (Asia) Corporation Limited, China Construction Bank (Europe) S.A., China Construction Bank Corporation Singapore Branch, BNP Paribas, CLSA Limited, Crédit Agricole Corporate and Investment Bank, The Hongkong and Shanghai Banking Corporation Limited and Standard Chartered Bank (collectively, the "**Managers**") that (1) you are not in the United States, the electronic mail address that you provided and to which this electronic mail has been delivered is not located in the United States and, to the extent you purchase the bonds described in the attached Offering Circular (the "**Bonds**"), you will be doing so pursuant to Regulation S under the U.S. Securities Act of 1933, as amended (the "**Securities Act**") and (2) you consent to delivery of the attached Offering Circular and any amendments or supplements thereto by electronic transmission.

The attached Offering Circular has been made available to you in electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of transmission and consequently none of the Bank or any Manager or any of their respective directors, employees, representatives, affiliates or advisers accepts any liability or responsibility whatsoever in respect of any discrepancies between the document distributed to you in electronic format and the hard copy version. **The Managers will upon request provide a hard copy version to you.**

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

PRIIPs REGULATION – PROHIBITION OF SALES TO EEA RETAIL INVESTORS – The Bonds 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 MiFID II; or (ii) a customer within the meaning of Directive (EU) 2016/97 (the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the "**PRIIPs Regulation**") for offering or selling the Bonds or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Bonds 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 Bonds are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom (the "**UK**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the "**EUWA**"); or (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000, as amended (the "**FSMA**") and any rules or regulations made under the FSMA to implement the Insurance Distribution Directive, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA. Consequently no key information document required by the PRIIPs Regulation as it forms part of domestic law by virtue of the EUWA (the "**UK PRIIPs Regulation**") for offering or selling the Bonds or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Bonds or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

*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 Bonds are "prescribed capital markets products" (as defined in the CMP Regulations 2018).*

Restrictions: The attached Offering Circular is being furnished in connection with an offering exempt from registration under the Securities Act solely for the purpose of enabling a prospective investor to consider the purchase of the Bonds described in this Offering Circular.

THE BONDS HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT. THE BONDS 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.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF BONDS FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO.

Except with respect to eligible investors in jurisdictions where such offer is permitted by law, nothing in this electronic transmission constitutes an offer or an invitation by or on behalf of either the Bank or the Managers to subscribe for or purchase any of the Bonds described therein, and access has been limited so that it shall not constitute a general advertisement or general solicitation (as those terms are used in Regulation D under the Securities Act) or directed selling efforts (within the meaning of Regulation S under the Securities Act) in the United States or elsewhere. If a jurisdiction requires that the offering be made by a licensed broker or dealer and a Manager or any affiliate of such Manager is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by such Manager or its affiliates on behalf of the Bank in such jurisdiction.

You are reminded that you have accessed the attached Offering Circular 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 forward this document, electronically or otherwise, to any other person. If you have gained access to this transmission contrary to the foregoing restrictions, you will be unable to purchase any of the Bonds described therein.

Actions that You May Not Take: You should not reply by e-mail to this electronic transmission and you may not purchase any Bonds 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.

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

You are responsible for protecting your electronic device 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.

The Bonds are complex financial instruments and of high risks and are not a suitable or appropriate investment for all investors.

OFFERING CIRCULAR

中国建设银行
China Construction Bank

中國建設銀行股份有限公司

China Construction Bank Corporation

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

U.S.$2,000,000,000 2.85 per cent. Tier 2 Dated Capital Bonds due 2032

ISSUE PRICE: 99.764 per cent.

The 2.85 per cent. Tier 2 Dated Capital Bonds due 2032 in the aggregate principal amount of U.S.$2,000,000,000 (the "**Bonds**") will be issued by China Construction Bank Corporation (中國建設銀行股份有限公司)(the "**Bank**" or the "**Issuer**").

The Bonds will constitute direct, unsecured and subordinated obligations of the Issuer, ranking *pari passu* without any preference among themselves. The claims of the Bondholders (as defined in "*Terms and Conditions of the Bonds*" (the "**Terms and Conditions of the Bonds**")) for payment of principal and any interest under the Bonds shall, in the event of the Cessation of Business, Bankruptcy or Winding-Up (each as defined in the Terms and Conditions of the Bonds) of the Issuer, be subordinated to the claims of depositors or general creditors of the Issuer; rank in priority to the claims of all holders of equity capital, Additional Tier 1 Capital Instruments (as defined in the Terms and Conditions of the Bonds) and hybrid capital bonds of the Issuer that rank junior to the Bonds; and rank *pari passu* with the claims under any other Tier 2 Capital Instruments (as defined in the Terms and Conditions of the Bonds). The Bondholders shall not have any right to accelerate any payment of principal or interest under the Bonds other than upon any Cessation of Business, Bankruptcy or Winding-Up of the Issuer.

If a Non-Viability Triggering Event (as defined in the Terms and Conditions of the Bonds) occurs, the Issuer has the right (without any requirement for the consent of the Bondholders) to irrevocably Write-off (as defined in the Terms and Conditions of the Bonds) (in whole or in part) the principal amount of the Bonds then outstanding, with effect from the next day following the relevant Non-Viability Triggering Event Occurrence Date (as defined in the Terms and Conditions of the Bonds) and after the cancellation or conversion of the aggregate principal amount of all Additional Tier 1 Capital Instruments. The principal amount of the Bonds to be Written-off shall be calculated based on the proportion that the outstanding aggregate principal amount of the Bonds bears to the total outstanding aggregate principal amount of the Tier 2 Capital Instruments with the same triggering event (including the Bonds). Once the principal amount of the Bonds (in whole or in part) has been Written-off, such relevant portion of the Bonds will not be restored or become payable again (whether in whole or in part) in any circumstances (including where the relevant Non-Viability Triggering Event ceases to continue), and any accrued but unpaid interest in respect of such relevant portion of the Bonds shall cease to be payable or enforceable. In addition, there will be no compensation in any form to remedy the loss of the Bondholders.

The Bonds will bear interest on their outstanding principal amount from, and including, 21 January 2022 (the "**Issue Date**"). In respect of the period from, and including, the Issue Date to, but excluding, the Reset Date (as defined in the Terms and Conditions of the Bonds), the interest rate shall be 2.85 per cent. per annum. In respect of the period from, and including, the Reset Date to, but excluding, 21 January 2032 (the "**Maturity Date**"), the interest rate per annum shall be equal to the sum of the Benchmark Rate (as defined in the Terms and Conditions of the Bonds) with respect to the Reset Date plus 1.40 per cent. Interest of the Bonds shall be payable semi-annually in arrear on 21 January and 21 July in each year commencing on 21 July 2022. Unless previously redeemed or Written-off, the Bonds will be redeemed on the Maturity Date at their outstanding principal amount, together with accrued but unpaid interest up to (but excluding) the Maturity Date.

All payments of principal and/or interest in respect of the Bonds will be made free and clear of, and without withholding or deduction for or on account of any present or future tax, duty, assessments or governmental charges of whatsoever nature imposed or levied by or on behalf of the PRC or any political subdivision or any authority thereof or therein having power to levy tax in the PRC, unless such withholding or deduction is required by the laws of the PRC. In that event, the Issuer shall pay such additional amounts as will result in the receipt by the Bondholders of such amounts as would have been received by them if no such withholding or deduction had been required, **provided, however, that** no such additional amounts shall be payable in respect of any Bond, subject to the extent described under "*Terms and Conditions of the Bonds – Taxation and Withholding*".

Subject to the satisfaction of the Redemption Conditions (as defined in the Terms and Conditions of the Bonds) and the prior consent of the China Banking and Insurance Regulatory Commission or any successor entity with the primary responsibility to supervise the Issuer (the "**CBIRC**") having been obtained and the requirements set out in the Terms and Conditions of the Bonds, the Issuer may redeem at its option all but not some only of the Bonds on 21 January 2027 (the "**Call Date**"), at their principal amount together with interest accrued to, but excluding, the date fixed for redemption but unpaid. See "*Terms and Conditions of the Bonds – Redemption, Substitution, Variation and Purchase – Redemption at the Option of the Issuer*". Subject to any applicable regulatory requirements, the satisfaction of the Redemption Conditions, and prior written consent of the CBIRC having been obtained, the Issuer may redeem at its option all but not some only of the Bonds at any time (whether before or following the Call Date) at their principal amount together with interest accrued to, but excluding, the date fixed for redemption but unpaid, if a change in the Administrative Measures for the Capital of Commercial Banks (for Trial Implementation)(商業銀行資本管理辦法(試行)) issued by the CBIRC, as amended, novated, supplemented, restated or replaced from time to time (the "**CBIRC Capital Regulations**") or regulations made thereunder occurs on or after the Issue Date having the effect that all of the Bonds, after having qualified as such, will be fully disqualified as Tier 2 Capital (as defined in the Terms and Conditions of the Bonds) of the Issuer under the CBIRC Capital Regulations (other than as a result of any discounting or amortisation requirements as to the eligibility of the Bonds for such inclusion pursuant to the relevant law and regulation in force as at the Issue Date). See "*Terms and Conditions of the Bonds – Redemption, Substitution, Variation and Purchase – Redemption for Regulatory Reasons*".

THE BONDS ARE OFFERED TO PROFESSIONAL INVESTORS ONLY AND ARE NOT SUITABLE FOR RETAIL INVESTORS. INVESTORS SHOULD NOT PURCHASE THE BONDS IN THE PRIMARY OR SECONDARY MARKETS UNLESS THEY ARE PROFESSIONAL INVESTORS. THE BONDS ARE COMPLEX FINANCIAL INSTRUMENTS AND OF HIGH RISK AND ARE NOT A SUITABLE OR APPROPRIATE INVESTMENT FOR ALL INVESTORS. INVESTING IN THE BONDS INVOLVES CERTAIN RISKS, INCLUDING THE RISK IN RELATION TO THEIR SUBORDINATION AND THE CIRCUMSTANCES IN WHICH HOLDERS COULD LOSE THEIR ENTIRE INVESTMENT IN THE BONDS. POTENTIAL INVESTORS SHOULD READ THE WHOLE OF THIS DOCUMENT, IN PARTICULAR THE "RISK FACTORS" SET OUT ON PAGES 13 to 42 FOR A DISCUSSION OF CERTAIN CONSIDERATIONS TO BE TAKEN INTO ACCOUNT IN CONNECTION WITH AN INVESTMENT IN THE BONDS, INCLUDING BUT NOT LIMITED TO THE RISK FACTORS TITLED "THE BONDS CONTAIN NON-VIABILITY LOSS ABSORPTION PROVISIONS WHICH IF TRIGGERED WOULD RESULT IN THE PRINCIPAL AMOUNT IN RESPECT OF THE BONDS BEING WRITTEN-OFF AND THE RELATED ACCRUED BUT UNPAID INTEREST CEASING TO BE PAYABLE AND ENFORCEABLE", "THE OCCURRENCE OF A NON-VIABILITY TRIGGERING EVENT MAY BE INHERENTLY UNPREDICTABLE AND MAY DEPEND ON A NUMBER OF FACTORS WHICH MAY BE OUTSIDE OF THE BANK'S CONTROL", "THE ISSUER'S OBLIGATIONS UNDER THE BONDS ARE SUBORDINATED AND THERE ARE LIMITED REMEDIES FOR NON-PAYMENT UNDER THE BONDS" AND "THE ISSUER MAY, IN ITS SOLE DISCRETION, ELECT TO REDEEM THE BONDS EARLY UPON THE CALL DATE OR UPON THE OCCURRENCE OF A REGULATORY REDEMPTION EVENT". INVESTORS SHOULD ALSO BE AWARE THAT THERE ARE VARIOUS OTHER RISKS RELATING TO THE BONDS, THE ISSUER, THE GROUP, THEIR BUSINESS AND THEIR JURISDICTIONS OF OPERATIONS WHICH INVESTORS SHOULD FAMILIARISE THEMSELVES WITH BEFORE MAKING AN INVESTMENT IN THE BONDS. INVESTORS SHOULD HAVE SUFFICIENT KNOWLEDGE AND EXPERIENCE IN FINANCIAL AND BUSINESS MATTERS TO EVALUATE THE INFORMATION CONTAINED IN THIS OFFERING CIRCULAR AND THE MERITS AND RISKS OF INVESTING IN THE BONDS IN THE CONTEXT OF THEIR FINANCIAL POSITION AND PARTICULAR CIRCUMSTANCES. INVESTORS ALSO SHOULD HAVE THE FINANCIAL CAPACITY TO BEAR THE RISKS ASSOCIATED WITH AN INVESTMENT IN THE BONDS. INVESTORS SHOULD NOT PURCHASE THE BONDS UNLESS THEY UNDERSTAND AND ARE ABLE TO BEAR RISKS ASSOCIATED WITH THE BONDS.

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

Application will be made to The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**") for the listing of, and permission to deal in, and for listing of, the Bonds by way of debt issues to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "**Listing Rules**") ("**Professional Investors**") only. This Offering Circular is for distribution to Professional Investors only.

Notice to Hong Kong investors: The Issuer confirms that the Bonds 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 Bonds are not appropriate as an investment for retail investors in Hong Kong. Investors should carefully consider the risks involved.

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

This Offering Circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Bank and the Group. The Bank 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.

The denomination of the Bonds will be U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof.

The Bonds will be issued in registered form and will be initially represented by a global bond certificate (the "**Global Bond Certificate**") which will be registered in the name of a nominee of, and shall be deposited on or around the Issue Date with a common depositary for, Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream**", together with Euroclear, the "**Clearing Systems**"). Beneficial interests in the Global Bond Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream. Except under the limited circumstances described in "*Summary of Provisions Relating to the Bonds in Global Form*", certificates for the Bonds will not be issued in exchange for interests in the Global Bond Certificate.

The Bonds are expected to be assigned a rating of "BBB+" by S&P Global Ratings ("**S&P**") and "BBB+" by Fitch (Hong Kong) Limited ("**Fitch**"). A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension and withdrawal at any time by the assigning rating agency. Potential purchasers should evaluate each rating independently of any other securities of the Bank.

Investors should have sufficient knowledge and expertise to evaluate effect or the likelihood of the occurrence of the Non-Viability Triggering Event for the Bonds which feature loss absorption.

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

PRIIPs REGULATION – PROHIBITION OF SALES TO EEA RETAIL INVESTORS – The Bonds 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 MiFID II; or (ii) a customer within the meaning of Directive (EU) 2016/97 (the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the "**PRIIPs Regulation**") for offering or selling the Bonds or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Bonds 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 Bonds are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom (the "**UK**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the "**EUWA**"); or (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000, as amended (the "**FSMA**") and any rules or regulations made under the FSMA to implement the Insurance Distribution Directive, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA. Consequently no key information document required by the PRIIPs Regulation as it forms part of domestic law by virtue of the EUWA (the "**UK PRIIPs Regulation**") for offering or selling the Bonds or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Bonds or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

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 Bonds are "prescribed capital markets products" (as defined in the CMP Regulations 2018).

Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers

CCB International	**China International Capital Corporation**	**Citigroup**	**Deutsche Bank**

Joint Bookrunners and Joint Lead Managers

China Construction Bank (Asia)	**China Construction Bank (Europe) S.A.**	**CCB Singapore**	**BNP PARIBAS**
CLSA	**Crédit Agricole CIB**	**HSBC**	**Standard Chartered Bank**

Offering Circular dated 13 January 2022

IMPORTANT NOTICE

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

This Offering Circular has been prepared by the Bank solely for use in connection with the proposed offering of the Bonds described in this Offering Circular. The distribution of this Offering Circular and the offering of the Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Bank and CCB International Capital Limited, China International Capital Corporation Hong Kong Securities Limited, Citigroup Global Markets Limited, Deutsche Bank AG, Hong Kong Branch, China Construction Bank (Asia) Corporation Limited, China Construction Bank (Europe) S.A., China Construction Bank Corporation Singapore Branch, BNP Paribas, CLSA Limited, Crédit Agricole Corporate and Investment Bank, The Hongkong and Shanghai Banking Corporation Limited and Standard Chartered Bank (collectively, the "**Managers**") to inform themselves about and to observe any such restrictions. None of the Bank or the Managers represents that this Offering Circular may be lawfully distributed, or that the Bonds 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. No action is being taken to permit a public offering of the Bonds or the possession or distribution of this Offering Circular or any offering or publicity material relating to the Bonds in any jurisdiction where action would be required for such purposes. There are restrictions on the offer and sale of the Bonds, and the circulation of documents relating thereto, in certain jurisdictions including the United States, the United Kingdom, the European Economic Area, Singapore, the PRC, Hong Kong, Switzerland, Taiwan and Canada, and to persons connected therewith. For a description of certain further restrictions on offers, sales and resales of the Bonds and distribution of this Offering Circular, see "*Subscription and Sale*". This Offering Circular does not constitute an offer of, or an invitation to purchase, any of the Bonds in any jurisdiction in which such offer or invitation would be unlawful. By purchasing the Bonds, investors represent and agree to all of those provisions contained in "*Subscription and Sale*".

No person has been or is authorised in connection with the issue, offer or sale of the Bonds to give any information or to make any representation concerning the Bank, the Group or the Bonds other than as contained herein and, if given or made, any such other information or representation should not be relied upon as having been authorised by the Bank, the Managers or the Agents (as defined in the Terms and Conditions of the Bonds) or any of their respective directors, employees, representatives, affiliates or advisers. Neither the delivery of this Offering Circular nor any offering, sale or delivery made in connection with the issue of the Bonds shall, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in the affairs of the Bank or the Group since the date hereof or create any implication that the information contained herein is correct as of any date subsequent to the date hereof. This Offering Circular does not constitute an offer of, or an invitation by or on behalf of, the Bank, the Managers or the Agents or any of their respective directors, employees, representatives, affiliates or advisers to subscribe for or purchase any of the Bonds and may not be used for the purpose of an offer to, or a solicitation by, anyone in any jurisdiction or in any circumstances in which such offer or solicitation is not authorised or is unlawful.

This Offering Circular is being furnished by the Bank solely for use in connection with the proposed offering of the Bonds exempt from registration under the Securities Act solely for the purpose of enabling a prospective investor to consider purchasing the Bonds. Investors must not use this Offering Circular for any other purpose, make copies of any part of this Offering Circular or give a copy of it to any other person, or disclose any information in this Offering Circular to any other person. The information contained in this Offering Circular has been provided by the Bank and other sources identified in this Offering Circular and the Bank has not authorised its use for any other purpose. Any reproduction or distribution of this Offering Circular, in whole or in part, and any disclosure of its contents or use of any information herein for any purpose other than considering an investment in the Bonds offered by this Offering Circular is prohibited. Each person into whose possession this Offering Circular comes, by accepting delivery of this Offering Circular, agrees to the foregoing.

No representation or warranty, express or implied, is made or given by the Managers or the Agents or any of their respective directors, employees, representatives, affiliates or advisers as to the accuracy, completeness or sufficiency of the information contained in this Offering Circular, and nothing contained in this Offering Circular is, or shall be relied upon as, a promise, representation or warranty by the Managers or the Agents or any of their respective directors, employees, representatives, affiliates or advisers. None of the Managers or the Agents or any of their respective directors, employees, representatives, affiliates or advisers have independently verified any of the information contained in this Offering Circular and can give no assurance that this information is accurate, true or complete. This Offering Circular is not intended to provide the basis of any credit or other evaluation nor should it be considered as a recommendation by any of the Bank, the Managers or the Agents or any of their respective directors, employees, representatives, affiliates or advisers that any recipient of this Offering Circular should purchase the Bonds. Each potential purchaser of the Bonds should determine for itself the relevance of the information contained in this Offering Circular and its purchase of the Bonds should be based upon such investigations with its own tax, legal and business advisers as it deems necessary.

It is expected that the Bonds will, when issued, be assigned a rating of "BBB+" by S&P and "BBB+" by Fitch. A rating is not a recommendation to buy, sell or hold securities, does not address the likelihood or timing of prepayment and may be subject to revision, qualification, suspension or withdrawal at any time by the assigning rating agency. A revision, qualification, suspension or withdrawal or any rating assigned to the Bonds may adversely affect the market price of the Bonds.

Certain facts and statistics relating to the PRC, its economy and its banking industry have been extracted from third party sources: the websites of the National Bureau of Statistics of China, the National Development and Reform Commission (the "**NDRC**"), the Central People's Government of the People's Republic of China and the People's Bank of China (the "**PBOC**"). The Bank confirms that such information has been accurately reproduced and that, so far as it is aware, such information is able to be ascertained from information published by such third parties, and no facts have been omitted which would render the reproduced information inaccurate or misleading. Such information however has not been independently verified by the Bank, the Managers or any Agents or any of their respective directors, employees, representatives, affiliates or advisers and, therefore, none of them makes any representation as to the accuracy of such facts and statistics or information, which may not be consistent with other information compiled within or outside the PRC and may not be complete or up-to-date.

IN CONNECTION WITH THE ISSUE OF THE BONDS, ANY OF THE MANAGERS APPOINTED AND ACTING IN ITS CAPACITY AS STABILISATION MANAGER (THE "STABILISATION MANAGER") (OR PERSONS ACTING ON BEHALF OF THE STABILISATION MANAGER) MAY OVER-ALLOT THE BONDS OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE PRICE OF THE BONDS AT A

LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL FOR A LIMITED PERIOD AFTER THE ISSUE DATE. HOWEVER, THERE IS NO OBLIGATION ON SUCH STABILISATION MANAGER TO DO THIS. SUCH STABILISING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME, AND IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE BONDS AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE BONDS. SUCH STABILISING SHALL BE IN COMPLIANCE WITH ALL APPLICABLE LAWS, REGULATIONS AND RULES.

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

PRIIPs REGULATION – PROHIBITION OF SALES TO EEA RETAIL INVESTORS – The Bonds are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the EEA). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or (ii) a customer within the meaning of the Insurance Distribution Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by the PRIIPs Regulation for offering or selling the Bonds or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Bonds 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 Bonds are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the UK. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the EUWA; or (ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement the Insurance Distribution Directive, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA. Consequently no key information document required by the UK PRIIPs Regulation for offering or selling the Bonds or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Bonds or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

Singapore SFA Product Classification: In connection with Section 309B of the SFA and 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 Bonds are "prescribed capital markets products" (as defined in the CMP Regulations 2018).

Each of the Managers and their respective affiliates may purchase the Bonds for its or their own account and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to the Bonds and/or other securities of the Issuer or its subsidiaries or associates at the same time as the offer and sale of the Bonds or in secondary market transactions. Such transactions may be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Bonds to which this Offering Circular relates (notwithstanding that such selected counterparties may also be purchasers of the Bonds). Furthermore, investors in the Bonds may include entities affiliated with the Group.

In making an investment decision, investors must rely on their own examination of the Bank, the Group and the terms of the offering, including the merits and risks involved.

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

See "*Risk Factors*" for a discussion of certain factors to be considered in connection with an investment in the Bonds including the risk that holders could lose their entire investment in the Bonds.

Each person receiving this Offering Circular acknowledges that such person has not relied on the Managers or the Agents or any of their respective directors, employees, representatives, affiliates or advisers in connection with its investigation of the accuracy of such information or its investment decision.

To the fullest extent permitted by law, the Managers and the Agents and their respective directors, employees, representatives, affiliates and advisers do not accept any responsibility for the contents of this Offering Circular or for any other statement, made or purported to be made by any of the Managers or the Agents or their respective directors, employees, representatives, affiliates and advisers or on their behalf in connection with the Issuer on the issue and offering of the Bonds. Each of the Managers and the Agents and their respective directors, employees, representatives, affiliates and advisers accordingly disclaims all and any liability whether arising in tort or contract or otherwise which it might otherwise have in respect of this Offering Circular or any such statement. None of the Managers or any Agent or any of their respective directors, employees, representatives, affiliates and advisers undertakes to review the financial condition or affairs of the Bank as after the date of this Offering Circular nor to advise any investor or potential investor in the Bonds of any information coming to the attention of the Managers or any Agent or any of their respective directors, employees, representatives, affiliates and advisers.

This Offering Circular contains the audited consolidated financial information of the Group as at and for the year ended 31 December 2018, 2019 and 2020, respectively. The financial information for these years was prepared in accordance with the International Financial Reporting Standards ("**IFRS**").

The audited consolidated financial information of the Group as at and for the years ended 31 December 2018 and 2019 has been extracted from the audited consolidated financial statements for the Group as at and for the year ended 31 December 2019 (the "**2019 Financial Statements**"). The consolidated financial information of the Group as at and for the year ended 31 December 2018 was audited by PricewaterhouseCoopers, Certified Public Accountants, Hong Kong ("**PricewaterhouseCoopers**"), the independent auditors of the Bank for the year ended 31 December 2018, in accordance with Hong Kong Standards on Auditing ("**HKSA**"). The consolidated financial information of the Group as at and for the year ended 31 December 2019 was audited by Ernst & Young in accordance with HKSA.

The audited consolidated financial information of the Group as at and for the year ended 31 December 2020 has been extracted from the audited consolidated financial statements for the Group as at and for the year ended 31 December 2020 (the "**2020 Financial Statements**"), which was audited by Ernst & Young in accordance with HKSA.

This Offering Circular also contains the unaudited but reviewed consolidated interim financial information of the Group as at and for the six months ended 30 June 2020 and 2021, extracted from the unaudited but reviewed consolidated interim financial statements of the Group as at and for the six months ended 30 June 2021 published on the Hong Kong Stock Exchange (the "**2021 First Half Financial Statements**"). These financial statements were prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("**IAS 34**") issued by the International Accounting Standards Board ("**IASB**"). The 2021 First Half Financial Statements have been reviewed by Ernst & Young in accordance with the Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

However, such 2021 First Half Financial Statements should not be relied upon by prospective investors to provide the same quality of information associated with information that has been subject to an audit. None of the Managers or their respective affiliates, directors, officers, employees, agents, representatives or advisers or any person who controls any of them makes any representation or warranty, express or implied, regarding the sufficiency of such unaudited but reviewed consolidated financial statements for an assessment of, and potential investors must exercise caution when using such data to evaluate the financial condition and results of operations of the Bank or the Group. Such 2021 First Half Financial Statements 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 2021. See "*Risk Factors – Risks relating to the Bank's Business – Potential investors should not place undue reliance on the financial information that is not audited or reviewed*".

In addition, this Offering Circular contains the unaudited and unreviewed consolidated interim financial information of the Group as at and for the nine months ended 30 September 2020 and 2021, extracted from the unaudited and unreviewed consolidated interim financial statements of the Group as at and for the nine months ended 30 September 2021 published on the Hong Kong Stock Exchange (the "**2021 Third Quarter Financial Statements**"). As the 2021 Third Quarter Financial Statements have not been audited or reviewed 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 or a review. None of the Managers or their respective affiliates, directors, officers, employees, agents, representatives or advisers or any person who controls any of them makes any representation or warranty, express or implied, regarding the accuracy, completeness and sufficiency of such consolidated financial statements of the Group for an assessment of, and potential investors must exercise caution when using such data to evaluate, the Bank's or the Group's financial condition and results of operations. Such 2021 Third Quarter Financial Statements 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 2021. See "*Risk Factors – Risks relating to the Bank's Business – Potential investors should not place undue reliance on the financial information that is not audited or reviewed*".

The Group has adopted IFRS 16 "Leases" ("**IFRS 16**") as issued by IASB in January 2016 with a date of initial application on 1 January 2019. The impact of the adoption of IFRS 16 is disclosed in note 4(27) of the 2019 Financial Statements. The Group has chosen to measure the right-of-use assets at an amount equal to the lease liabilities, adjusted by the amount of prepaid lease payments, etc. Total assets and total liabilities at the consolidated level as at 1 January 2019 both increased by RMB19,944 million as compared to the end of 2018. In addition to land use rights, the Group recognised other right-of-use assets and lease liabilities of RMB21,752 million and RMB19,914 million at the date of initial application, respectively. The reconciliation between the operating lease commitments disclosed in the audited consolidated financial statements of the Group as at and for the year ended 31 December 2018, and the lease liabilities recognised in the statement of financial position at the date of initial application is further set out in note 4(27) of the 2019 Financial Statements. As permitted by the transitional provisions of IFRS 16, the Group elected not to restate comparative figures.

Pursuant to the Notice on strictly implementing the accounting standards for business enterprises and strengthening the annual report of enterprises in 2020（關於嚴格執行企業會計準則切實加強企業2020年年報工作的通知財會(2021)2號）, in respect of the financial information as at and for the year ended 31 December 2020, the Group reclassified its Net Fee and Commission Income from its credit card instalment business, such that it is recognised as Interest Income for the year ended 31 December 2020, while also reclassifying related fee receivables from Other Assets to Loans and Advances to Customers. The comparative figures as at and for the year ended 31 December 2019 were also similarly adjusted, however the comparative figures as at and for the year ended 31 December 2018 have not been adjusted. Investors should therefore exercise caution when comparing the year-to-year financial data of the Bank in relation to such line items for the years ended 31 December 2018, 2019 and 2020.

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.

Unless otherwise specified or the context requires, references herein to "**the Group**" and words of similar import are to China Construction Bank Corporation itself or China Construction Bank Corporation and its subsidiaries, as the context requires; all references to "**the Bank**" or "**the Issuer**" and words of similar import regarding the description of the Bonds are to China Construction Bank Corporation itself; "**Hong Kong dollars**" and "**HK$**" are to the lawful currency of Hong Kong, references herein to "**CNY**", "**RMB**" and "**Renminbi**" are to the lawful currency of the People's Republic of China (the "**PRC**"), references to "**U.S.$**", "**USD**" and "**U.S. dollars**" are to the lawful currency of the United States and "**Pounds Sterling**" are to the lawful currency of the UK.

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

The English names of the PRC nationals, entities, departments, facilities, laws, regulations, certificates, titles and the like are translations of their Chinese names and are included for identification purposes only.

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

FORWARD-LOOKING STATEMENTS

The Bank has made certain forward-looking statements in this Offering Circular. All statements other than statements of historical facts included in this Offering Circular, including, but without limitation, those regarding the Group's financial position, future expansion plans, prospects, business strategy 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. These forward-looking statements are based on the Bank's current expectations about future events. Although the Bank believes that these expectations and projections are reasonable, such forward-looking statements are inherently subject to risks, uncertainties and assumptions, including, among other things: risks associated with international global business activities; general economic and political conditions; possible disruptions to commercial activities due to nature and human induced disasters, including terrorist activities and armed conflicts; fluctuations in foreign currency exchange rates; and those other risks identified in "*Risk Factors*".

The words "anticipate", "believe", "estimate", "expect", "intend", "plan" and similar expressions are intended to identify a number of these forward-looking statements. These forward-looking statements involve known and unknown risks, uncertainties and other factors, some of which are beyond the Group's control, which may cause its actual results, performance or achievements, or industry results to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. The Bank undertakes no obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this Offering Circular might not occur and the Bank's actual results could differ materially from those anticipated in these forward-looking statements.

These forward-looking statements speak only as of the date of this Offering Circular. The Bank expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in the Bank's expectations with regard thereto or any change of events, conditions or circumstances, on which any such statement was based.

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OVERVIEW OF THE BANK

The overview below is intended only to provide a limited overview of information described in more detail elsewhere in this Offering Circular. As it is an overview, it does not contain all the information that may be important to investors. Terms defined elsewhere in this Offering Circular shall have the same meanings when used in this overview. Prospective investors should therefore read this Offering Circular in its entirety.

Overview

The Bank is a leading commercial bank in China providing a comprehensive range of banking products and financial services. The Bank was incorporated as a joint stock company in the PRC on 17 September 2004 and its Unified Social Credit Code is 911100001000044477. The registered address of the Bank is No. 25, Finance Street, Xicheng District, Beijing 100033, China and its telephone number is +86 10 6621 5533. As at 30 June 2021, the Bank had 250,010,977,486 ordinary shares outstanding. Headquartered in Beijing, the Bank provides convenient and quality banking services to its customers through an extensive network comprised of nationwide branches, self-service facilities and an electronic banking service platform.

The Bank operates principally in mainland China with branches in all provinces, autonomous regions and municipalities directly under the central government, and several subsidiaries located in mainland China. The Bank's principal business activities include corporate banking, personal banking, treasury business and others. Within the Bank's corporate banking business, the Bank offers a broad range of products and services to corporations, government agencies and financial institutions, including corporate loans, trade financing, deposit taking and wealth management services, agency services, financial consulting and advisory services, cash management services, remittance and settlement services, custody services and guarantee services.

The Bank provides a broad range of personal banking products and services under well recognised brands, including personal loans, deposit taking and wealth management services, card business, remittance services and agency services. The Bank's treasury operations include inter-bank money market transactions and repurchase and resale transactions, and investments in debt securities. It also trades in derivatives and foreign currencies for its own account. The treasury carries out customer-driven derivatives, foreign currency and precious metal trading.

Leveraging its vast resources and geographic advantages in the Chinese domestic market, the Bank is committed to providing a world-wide banking and financial services platform to service the overseas banking needs of its domestic corporate and personal banking customers and the domestic banking needs of its overseas corporate and personal banking customers seeking to trade with or invest in China. The Group adheres to a positive and steady international operation and overseas development strategy, leading to a steady expansion of its overseas network. As at 30 June 2021, the Bank had a total of 14,656 operating entities, consisting of 14,622 domestic entities including the head office of the Bank (the "**Head Office**"), 37 tier-one branches, 361 tier-two branches, 14,045 sub-branches, 177 outlets under the sub-branches and one specialised credit card centre at the Head Office, and 34 overseas institutions. The Bank had 19 major subsidiaries with a total of 592 entities, including 425 domestic ones and 167 overseas ones. The Group has more than 200 overseas entities, covering 30 countries and regions including Hong Kong, Singapore, Germany, South Africa, Japan, South Korea, the U.S., the U.K., Vietnam, Australia, Russia, the United Arab Emirates, Taiwan, Luxembourg, Macau, New Zealand, Canada, France, Netherlands, Spain, Italy, Switzerland, Brazil, Cayman Islands, Ireland, Chile, Indonesia, Malaysia, Poland and Kazakhstan, and maintained wholly-owned operating subsidiaries including China Construction Bank (Asia) Corporation Limited ("**CCB Asia**"), China Construction Bank (London) Limited ("**CCB London**"), China Construction Bank (Russia) Limited Liability Company ("**CCB Russia**"), China Construction Bank (Europe) S.A. ("**CCB Europe**"), China Construction Bank (New Zealand) Limited ("**CCB New Zealand**"), China Construction Bank (Brasil)

Banco Múltiplo S.A. ("**CCB Brasil**") and China Construction Bank (Malaysia) Berhad ("**CCB Malaysia**") and held 60 per cent. of the total share capital of PT Bank China Construction Bank Indonesia Tbk ("**CCB Indonesia**").

As at 30 June 2021, the Group's total assets, total liabilities and total equity were RMB29,833,188 million (including loans and advances to customers of RMB17,493,902 million), RMB27,370,847 million (including total deposits from customers of RMB22,317,969 million) and RMB2,462,341 million, respectively. For the year ended 31 December 2020, the Group's net interest income was RMB575,909 million, representing an increase of 7.23 per cent. over the same period in 2019 and the profit before tax was RMB336,616 million, representing an increase of 3.07 per cent. over the same period in 2019. For the six months ended 30 June 2021, the Group's net interest income was RMB296,085 million, representing an increase of 5.18 per cent. over the same period in 2020 and the profit before tax was RMB184,463 million, representing an increase of 9.30 per cent. over the same period in 2020.

The NPL ratio of the Group as at 30 June 2021 was 1.53 per cent., representing a decrease of 0.03 per cent. as compared to the corresponding ratio as at 31 December 2020. As at 30 June 2021, the NPL ratio for domestic corporate loans and advances was 2.49 per cent., a decrease of 0.07 percentage point from 31 December 2020, and the NPL ratio for personal loans and advances was 0.39 per cent., a decrease of 0.02 percentage point from 31 December 2020.

As at 30 June 2021, the NPL ratio for overseas operations and subsidiaries was 1.71 per cent., representing a decrease by 0.24 percentage point from 31 December 2020. As at 30 June 2021, the Group's total capital ratio was 16.58 per cent. and Common Equity Tier 1 ratio was 13.23 per cent., representing a decrease of 0.48 per cent. and 0.39 per cent., respectively, as compared to the corresponding ratio as at 31 December 2020.

The Group adheres to a steady and prudent capital management strategy. It strengthens capital constraint and incentives and promotes intensive capital management to continuously enhance the efficiency of capital use. The Group relies both on internal capital accumulation and external capital replenishment, maintains a capital adequacy level that is constantly above the regulatory requirements, and outperforms its peers. In 2020, facing the impact of coronavirus disease 2019 ("**COVID-19**"), the Group gave full play to the role of capital in counter-cyclical adjustments and increased capital support for the prevention and control of COVID-19 and the recovery and development of the real economy. It continuously optimised the asset structure and encouraged the development of businesses with low capital occupation and high return on capital. It further pressed ahead with intensive capital management, used big data to further save capital, and reduced ineffective and inefficient capital occupation. It used market financing to replenish capital and issued U.S.$2 billion overseas Tier 2 capital bonds and RMB65 billion domestic capital bonds. It finalised the capital plan for 2021-2023 to make reasonable arrangements for medium-term capital sources and utilisation. In the first half of 2021, the Group gave full play to the role of capital in supporting the development of various businesses, reinforced the capital-centred planning evaluation mechanism, and strived to maintain the reasonable growth and optimise the structure of total risk-weighted assets. It further implemented intensive capital management measures, and improved the efficiency of capital use. It also actively prepared for the implementation of the final set of Basel III rules across the Bank.

The Group maintained a stable market position and its core indicators and market capitalisation continued to be in the leading position among its peers. The Group formulated the Transformation and Development Plan of China Construction Bank in 2014, which proposed to accelerate transformation towards a comprehensive banking group, multi-functional service, intensive development, an innovative bank and a smart bank. In accordance with the requirements of enhancing capability to serve national development, to prevent financial risks and to participate in international competition, the Group specified seven key points of transformation, including promoting operation and management of assets and liabilities on a consolidated basis, consolidating and developing wholesale business, accelerating the development of retail business, improving the quality of electronic banking business, enhancing asset management business for customers in an all-round way, strengthening the competitiveness of subsidiaries and accelerating the expansion of international business and overseas operations. By deepening reform of system and mechanism, strengthening risk management and control, enhancing IT support and big data usage capacity, the Group strives to build the best value creation bank.

In recent years, the Group, adhering to the New Finance Concept of inclusiveness, openness and sharing, took the lead in digital transformation, took digitalised operation as the breakthrough point to implement the "Three Major Strategies" of house rental, inclusive finance and FinTech, and developed a set of effective digital transformation methods with the Bank's characteristics according to the basic logic of "building ecologies, setting up scenarios and expanding user base".

In 2018, 2019, 2020 and 2021, the Group received numerous awards from various domestic and international institutions including the "Best Large-Scale Retail Bank 2018", the "Achievement in Comprehensive Risk Management Award 2018", the "Achievement in Comprehensive Risk Management Award 2019", the "Best Mega Trade Finance Bank in China 2019" and "Bank of the Year in China 2020" in Wealth and Society sector and "Custodian Bank of the Year in China 2020" from Singapore magazine The Asian Banker, the "Best Bank in China 2019" from The Asset, the "Best Bank in China 2018", "Best Private Bank in China 2019" and "Overall Best National Retail Bank in China 2020" from Asiamoney, the "Most Competitive Online Finance Bank 2019" and the "2020 Excellent Competitiveness RMB International Bank" from China Business Journal, the "Best Bank for Inclusive Finance Service of Golden Dragon Award 2018", "Best Fintech Innovation Bank 2019" and "Digital Operation Bank of the Year 2020" from Financial News, "Most Influential Bank" and "Innovative Mobile Banking" in 2019 from Sina Finance, the "Best Inclusive Finance Performance Award" and the "Best Social Responsibility Practice Award" in 2019 and "Best Targeted Poverty Alleviation Contribution Award" in 2020 from the China Banking Association, "Best Bank in China 2018" from UK magazine The Banker, the "Most Innovative Bank for Trade Finance of the World" in 2018 and the "Best Bank for Cross-Border Trade" in 2020 from Global Finance, the "Asian Risk Management Awards for Excellence 2018" from 21st Century Business Herald, the "Best Financial Innovation Award 2018" from The Chinese Banker magazine, "The Bank of the Highest Investment Value" in 2018 from Sina Finance, the "Grand Prize of the Bank Technology Development Award" by the PBOC in 2018, "Digital Economy Sailing Award 2020" from Securities Daily, the "Best Board of Directors" from Directors & Boards and "China's Outstanding Group in Eradicating Poverty" by the State Council in 2021. The Group ranked second in UK magazine The Banker's "Top 1000 World Banks" in 2018, 2019 and 2020, ranked 31st in the "Fortune Global 500" of the US magazine Fortune in 2018 and 2019 and ranked 30th in the same in 2020, and ranked third in the "Top 50 Most Valuable Management Award in China" in 2019 by Interbrand.

In addition, the Group won numerous awards from major domestic and foreign media organisations for its achievements in fields including corporate governance, corporate social responsibility, risk management, corporate credit, retail business, investment custodial business, underwriting of debt securities, credit card business, housing finance and information technology.

Competitive Strengths

The Bank believes its strengths, as set out below, provide a stable and effective platform through which it will be able to maintain its competitive advantage in China's banking industry:

- Large Customer Base and Established Relationships
- Extensive Distribution Network and a Diversified Service Channel
- Leading Positions in Key Products and Services, Pioneering New Product and Service Development and Implementing Fintech Strategy

- Advanced Financial Management Capabilities and Financial Controls
- Effective Strategic Co-operation
- Environmental Protection
- Experienced Management Team, Vocational Education Model and Remuneration Policy

Recent Development

Impact of COVID-19 pandemic and the Group's main countermeasures

In 2020, the spread of COVID-19 has had a severe impact on the global economy. China has achieved significant strategic results through coordinated efforts in the prevention and control of COVID-19 and in economic and social development, and the domestic economy has resumed to normal. However, the international economic and financial environment remained complex and challenging, and there still exists many uncertainties in the developments of COVID-19 in China and the rest of the world. The Group actively shouldered responsibilities as a large bank, fully supported the prevention and control of COVID-19 and the resumption of work and production, vigorously promoted digitalised operations and services, and strove to achieve high-quality development of its businesses. Please refer to "*Risk Factors – Risks Relating to the Bank's Business – Uncertainties and instability in the global market conditions could adversely affect the Bank's business, financial condition and results of operations*" and "*Risk Factors – Risks Relating to the Bank's Business – Any force majeure events, including occurrence of natural disasters or outbreaks of contagious diseases (such as COVID-19) may have an adverse effect on the Bank's business operations, financial condition and results of operations*".

The Group's main countermeasures in response to COVID-19 are as follows:

Implementing regular COVID-19 prevention and control to ensure the smooth operation of business

The Group set up a leading team for COVID-19 prevention and control, strengthened its organisational structure, optimised response mechanisms and improved emergency response plans. It enhanced its prediction of risks including credit risk and liquidity risk and strengthened the unified credit risk control at the group level. It also enhanced business continuity management and improved internal control measures such as rules, regulations and IT systems. The Group strengthened the care and safety protection of its associates and ensured the provision of various prevention supplies. It quickly enabled remote working of the uniform staff platform, deployed more robotic process automation (RPA) applications, and implemented flexible working arrangements such as working from home, rotating shifts and staggered shifts.

Introducing multiple strategies to fully support the prevention and control of COVID-19 and the resumption of work and production

The Group took coordinated efforts to support the prevention and control of COVID-19 and the economic and social development, for example it successively introduced "10 Measures" of financial services to support the prevention and control of COVID-19. The Group also increased credit supply, mainly to address the credit demands of sectors and industries related to the prevention and control of COVID-19 and the resumption of work and production, as well as inclusive finance business, and the manufacturing sector. A total of RMB125,680 million loans were granted to 12,166 key enterprises engaging in the prevention and control of COVID-19. The Group further reduced service fees, provided favourable loan interest rates to key enterprises engaging in the prevention and control of COVID-19, and adopted relief measures such as deferred principal repayment and interest payment, loan extension and renewal to help customers affected by COVID-19. The Group provided fund support to key customers and financial institutions in key regions, and successfully issued special bonds for enterprises engaging in the prevention and control of COVID-19 and special interbank certificates of deposit for the prevention and control of COVID-19. The Group co-built "Oxygen Tank for Enterprises" with governments to support enterprises for the resumption of work and production, signed a total of 31 cooperation agreements with different levels of governments and departments of provinces and cities, and granted nearly RMB180 billion loans for over 20,000 enterprises. By the end of 2020, donations from the Group and its associates had reached RMB317 million, which included 11.50 million pieces of epidemic prevention materials.

Promoting forward-looking active risk mitigation to consolidate asset quality foundation

Adhering to the principle of prudence, and fully considering the impact of COVID-19 and government relief measures on the macro-economy, the Group increased provisions, and improved the disposal of risk assets based on the actual risk profile of customers, to enhance its risk mitigation capability. The Group carried out forward-looking special stress tests on the impact of COVID-19, continued to improve post-lending monitoring and management, and took measures to mitigate risks in advance to ensure the steady development of businesses. The assumptions underlying the expected credit losses calculation, such as how the maturity profile of probability of defaults and how the collateral values change, were monitored and reviewed on a quarterly basis. There were no significant changes in estimation techniques and such assumptions made for the year ended 31 December 2020. At the end of 2020, the NPL ratio of the Group was 1.56 per cent., and the proportion of special mention loans was 2.95 per cent. The allowances to total loans was 3.33 per cent. and allowances to NPLs was 213.59 per cent., maintaining at a high level.

Issuance of multi-currency ESG-themed bonds which listed on several exchanges

The Bank issued multi-currency ESG-themed bonds offshore on 15 April 2021, including three-year and five-year dual series sustainability-linked bonds in the aggregate principal amount of U.S.$1.15 billion, a series of three-year green bond in the aggregate principal amount of EUR800 million, and a series of two-year offshore transition bond in the aggregate principal amount of RMB2 billion. The US dollar denominated bonds, which were dual-listed in Hong Kong and Dubai, were the first sustainability-linked US dollar denominated bonds issued by a financial institution. The Euro denominated bonds, which were triple-listed in Hong Kong, Luxembourg and London, were the first offshore "water protection" themed green bond issued by a Chinese financial institution; the offshore RMB bonds, which was dual-listed in Hong Kong and Singapore exchanges, were the largest offshore RMB transition bond.

Issuance of a three-year special financial bond for small and micro business loans

With the approvals from CBIRC and the PBOC, the Bank issued in the domestic market a series of three-year special financial bond for small and micro business loans with a fixed interest rate of 3.30 per cent. and a total face value of RMB20.00 billion in January 2021. The funds raised were specifically used to grant small and micro business loans.

THE OFFERING

*The following overview contains some basic information about the Bonds and is qualified in its entirety by the remainder of this Offering Circular. Some of the terms described below are subject to important limitations and exceptions. Terms and phrases used in this overview and not otherwise defined shall have the meanings given to them in "Terms and Conditions of the Bonds". The following is an overview of the terms and conditions of the Bonds (the "**Conditions**" or the "**Terms and Conditions of the Bonds**"). Prospective investors should refer to "Terms and Conditions of the Bonds" in this Offering Circular for a detailed description of the Terms and Conditions of the Bonds.*

Issuer	China Construction Bank Corporation（中國建設銀行股份有限公司）.
Principal Amount of the Bonds	U.S.$2,000,000,000 in aggregate.
Issue Price.	99.764 per cent.
Status and Subordination	The Bonds will constitute direct, unsecured and subordinated obligations of the Issuer, ranking *pari passu* without any preference among themselves. The claims of the Bondholders for payment of principal and any interest under the Bonds shall, in the event of the Cessation of Business, Bankruptcy or Winding-Up of the Issuer, be subordinated to the claims of depositors or general creditors of the Issuer; rank in priority to the claims of all holders of equity capital, Additional Tier 1 Capital Instruments and hybrid capital bonds of the Issuer that rank junior to the Bonds; and rank *pari passu* with the claims under any other Tier 2 Capital Instruments. The Bondholders shall not have any right to accelerate any payment of principal or interest under the Bonds other than upon any Cessation of Business, Bankruptcy or Winding-Up of the Issuer. In addition, in the event of the Cessation of Business, Bankruptcy or Winding-Up of the Issuer, the claims of the Bondholders for payment of principal and any interest under the Bonds shall be subordinated to the claims of all holders of securities that rank in priority to the Bonds. The priority of claims set out above applies to all claims of holders of relevant securities, present or future, issued or guaranteed by the Issuer that rank or are expressed to rank in priority to, junior to or *pari passu* with the Bonds, as the case may be, by operation of law or contract.
Interest	From, and including, the Issue Date to, but excluding, the Reset Date, the applicable interest rate will be 2.85 per cent. per annum. From, and including, the Reset Date to, but excluding, the Maturity Date, the applicable interest rate per annum will be equal to the sum of the Benchmark Rate with respect to the Reset Date plus 1.40 per cent. Interest will be payable semi-annually in arrear on 21 January and 21 July in each year, commencing on 21 July 2022. Any payment of interest on the Bonds will be subject to the prevailing regulatory requirements of the relevant regulatory authorities in effect at the time of such payment, including that the payment of interest on the Bonds need to be made from available resources of the Issuer.

	Please refer to the risk factor headed "The provisions on available resources in the CBIRC Capital Regulations are subject to interpretation by the relevant regulatory authorities and the application of relevant laws, rules and regulations" on page 37 of this Offering Circular for further details.
Issue Date	21 January 2022
Maturity Date	Unless previously redeemed, or Written-off, the Bonds will be redeemed on the Maturity Date at their outstanding principal amount, together with accrued but unpaid interest up to (but excluding) the Maturity Date. Except as otherwise provided in the Terms and Conditions of the Bonds, the Issuer does not have the option to repay the Bonds prior to the Maturity Date. In addition, the Bondholders do not have the right to require the Issuer to repay the Bonds prior to the Maturity Date.
Denomination	U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof.
Form of Bonds.	The Bonds will be issued in registered form.
Write-off on a Non-Viability Triggering Event.	If a Non-Viability Triggering Event occurs, the Issuer has the right (without any requirement for the consent of the Bondholders) to irrevocably Write-off (in whole or in part) the principal amount of the Bonds then outstanding, with effect from the next day following the relevant Non-Viability Triggering Event Occurrence Date and after the cancellation or conversion of the aggregate principal amount of all Additional Tier 1 Capital Instruments. The principal amount of the Bonds to be Written-off shall be calculated based on the proportion that the outstanding aggregate principal amount of the Bonds bears to the total outstanding aggregate principal amount of the Tier 2 Capital Instruments with the same triggering event (including the Bonds). Once the principal amount of the Bonds (in whole or in part) has been Written-off, such relevant portion of the Bonds will not be restored or become payable again (whether in whole or in part) in any circumstances (including where the relevant Non-Viability Triggering Event ceases to continue), and any accrued but unpaid interest in respect of such relevant portion of the Bonds shall cease to be payable or enforceable. In addition, there will be no compensation in any form to remedy the loss of the Bondholders. Upon giving of a Non-Viability Triggering Event Notice, the Issuer shall procure that a similar notice is concurrently, or has been, given in respect of each Additional Tier 1 Capital Instruments and each other Tier 2 Capital Instruments in accordance with the terms and requirements thereof or any applicable laws and regulations. A "**Non-Viability Triggering Event**" means the occurrence of the earlier of either: (i) the China Banking and Insurance Regulatory Commission or any successor entity with primary supervision of the Issuer (the "**CBIRC**") having decided that a Write-off is necessary, without which the Issuer would become non-viable; or

(ii) any relevant authority having decided that a public sector injection of capital or equivalent support is necessary, without which the Issuer would become non-viable.

*As at the date of this Offering Circular, to the Issuer's knowledge, pursuant to Paragraph 2(1) of the Guiding Opinions on Innovation of Capital Instruments of Commercial Banks issued by the China Banking and Insurance Regulatory Commission (Revised)(中國銀行業監督管理委員會關於商業銀行資本工具創新的指導意見(修訂))(the "**2019 Guiding Opinions**"), the relevant authorities regarding paragraph (ii) in the definition above or in the case of a partial Write-off are those which may determine whether a public sector injection of capital or equivalent support is necessary, which include the State Council, MOF, PBOC and the CBIRC. In making such determination (regarding paragraph (ii) in the definition above or in the case of a partial Write-off), the relevant authorities may consult each other and/or seek joint agreement among themselves. The Administrative Measures for the Capital of Commercial Banks (for Trial Implementation) issued by the CBIRC (the "**CBIRC Capital Regulations**") and the 2019 Guiding Opinions will be subject to interpretation and application by the CBIRC and the relevant authorities.*

"**Non-Viability Triggering Event Occurrence Date**" means the date on which the CBIRC or the relevant authority has decided a Non-Viability Triggering Event occurs and has informed the Issuer, together with a public announcement of, such Non-Viability Triggering Event. If there is any uncertainty of any Non-Viability Triggering Event Occurrence Date, the date determined by the CBIRC or the relevant authority will prevail.

"**Write-off**" or "**Written-off**" means the cancellation (in whole or in part) of the principal amount of the Bonds which shall not be restored (whether in whole or in part) under any circumstances (including where the relevant Non-Viability Triggering Event ceases to continue). References to "**Write-off**" or "**Written-off**" shall be construed to include the cessation of payment and non-enforceability of any accrued but unpaid interest on such cancelled Bonds.

Write-off Procedure . . . . In respect of the Write-off of the Bonds (in whole or in part), such Write-off and any cancellation or conversion of any Additional Tier 1 Capital Instruments and other Tier 2 Capital Instruments will take place as follows:

(i) the Bonds will be Written-off following the cancellation or conversion, in accordance with the terms thereof or any applicable laws and regulations, in full of the principal amount of all Additional Tier 1 Capital Instruments (and all relevant accrued but unpaid amounts shall cease to be payable or enforceable); and

(ii) the Bonds will be Written-off concurrently with the cancellation or conversion, in accordance with the terms thereof or any applicable laws and regulations, of the principal amount of all other Tier 2 Capital Instruments (and all relevant accrued but unpaid amounts shall cease to be payable or enforceable).

If the Bonds are to be Written-off in part only, the principal amount of the Bonds to be Written-off shall be calculated based on the proportion that the outstanding aggregate principal amount of the Bonds bears to the total outstanding aggregate principal amount of all Tier 2 Capital Instruments with the same triggering event (including the Bonds).

The application of partial Write-off on any Bonds set out above is subject to the determination of the relevant authorities. See "Risk Factors – Risks relating to the Bonds – The Bonds contain non-viability loss absorption provisions which if triggered would result in the principal amount in respect of the Bonds being Written-off and the related accrued but unpaid interest ceasing to be payable and enforceable".

Redemption for Regulatory Reasons . .

Subject to any applicable regulatory requirements, the satisfaction of the Redemption Conditions, and prior written consent of the CBIRC having been obtained, the Issuer may, on giving the Redemption Notice to the Bondholders with not less than 30 nor more than 60 days' prior notice (which notice shall be irrevocable, and with a copy to be provided to the Fiscal Agent) and concurrently making a public announcement of the details of such Redemption Notice, redeem at its option all but not some only of the Bonds at any time (whether before or following the Call Date) at their principal amount together with interest accrued to, but excluding, the date fixed for redemption but unpaid, if a change in the CBIRC Capital Regulations or regulations made thereunder occurs on or after the Issue Date having the effect that all of the Bonds, after having qualified as such, will be fully disqualified as Tier 2 Capital of the Issuer under the CBIRC Capital Regulations (other than as a result of any discounting or amortisation requirements as to the eligibility of the Bonds for such inclusion pursuant to the relevant law and regulation in force as at the Issue Date) (the "**Regulatory Redemption Event**"), **provided, however, that** no Redemption Notice shall be given earlier than 90 days prior to the earliest date on which it is determined that a Regulatory Redemption Event has occurred.

Concurrent with the giving of any Redemption Notice pursuant to the foregoing paragraph, the Issuer shall deliver to the Fiscal Agent (i) an opinion of reputable legal advisers of recognised standing to the effect that a Regulatory Redemption Event has occurred and (ii) a copy of the written opinion of the CBIRC consenting to such redemption, certified as a true copy of the original by the Issuer.

"**Redemption Conditions**" means the following conditions precedent (together with the prior written consent of the CBIRC) to the exercise of the right of the Issuer to redeem the Bonds prior to their stated maturity pursuant to the Terms and Conditions of the Bonds:

(i) the capital of the Issuer will be replenished by substitution of the Bonds with capital instruments of the same or superior loss absorption quality to the Bonds and such substitution shall only be made at a time at which the Issuer has a sustainable income generating capability; or

	(ii) the capital position of the Issuer immediately after redemption of the Bonds will remain significantly higher than the regulatory capital requirements prescribed by the CBIRC.
Redemption at the option of the Issuer	The Bonds will be redeemable at the option of the Issuer on a one-time basis prior to the Maturity Date. Subject to the satisfaction of the Redemption Conditions and the prior consent of the CBIRC having been obtained, the Issuer may, on giving the Redemption Notice to the Bondholders with not less than 30 nor more than 60 days' prior notice (which notice shall be irrevocable, and with a copy to be provided to the Fiscal Agent) and concurrently making a public announcement of the details of such Redemption Notice, redeem at its option all but not some only of the Bonds on the Call Date at their principal amount together with interest accrued to, but excluding, the date fixed for redemption but unpaid. Concurrent with the giving of any such Redemption Notice pursuant to the foregoing paragraph, the Issuer shall deliver to the Fiscal Agent (i) a copy of the written opinion of the CBIRC consenting to such redemption, certified as a true copy of the original by the Issuer; and (ii) a certificate signed by an authorised signatory of the Issuer confirming that the CBIRC Approval has been obtained and the Redemption Conditions have been satisfied.
Substitution or Variation	Subject to the prior written consent of the CBIRC, the Issuer may (without any requirement for consent of the Bondholders), having given not less than 30 nor more than 60 days' notice to the Bondholders (which notice shall be irrevocable, and with a copy to be provided to the Fiscal Agent), at any time (whether before or following the Call Date) substitute all but not some only of the Bonds for, or vary the terms of the Bonds so that they remain or, as appropriate, become, Qualifying Tier 2 Capital Instruments. Prior to the publication of any notice of substitution or variation, the Issuer will deliver to the Fiscal Agent (i) an opinion of reputable legal advisers of recognised standing to the effect that the relevant substituted bonds or varied bonds (as the case may be) will as of their effective date remain or, as appropriate, become, Qualifying Tier 2 Capital Instruments and (ii) a copy of the written opinion of the CBIRC consenting to such substitution or variation, certified as a true copy of the original by the Issuer.
Enforcement Event; Limited Right of Acceleration	Notwithstanding any other provisions of the Bonds, no Bondholder shall have any right to declare any payment of principal or interest under the Bonds immediately due and payable other than upon any Cessation of Business, Bankruptcy or Winding-Up of the Issuer. Upon any Cessation of Business, Bankruptcy or Winding-Up in respect of the Issuer, the Bonds shall immediately become, due and payable at their principal amount together with accrued interest without further formality, and any Bondholder may, in respect of the Bonds held by such Bondholder, prove and claim in the Bankruptcy or Winding-Up of the Issuer.

Without prejudice to the above, any Bondholder may, in respect of the Bonds held by such Bondholder, institute such proceedings against the Issuer as it may think fit to enforce any term or condition binding on the Issuer under the Bonds (including any payment due under or arising from the Bonds, including, without limitation, payment of any principal or interest in respect of the Bonds and any damages awarded for breach of any obligations but excluding any right to declare the Bonds immediately due and payable prior to any Cessation of Business, Bankruptcy or Winding-Up of the Issuer) and in no event shall the Issuer be obliged to pay any sum or sums, in cash or otherwise, sooner than the same would otherwise have been payable by it.

Taxation	All payments of principal and/or interest in respect of the Bonds will be made free and clear of, and without withholding or deduction for or on account of any present or future tax, duty, assessments or governmental charges of whatsoever nature imposed or levied by or on behalf of the PRC or any political subdivision or any authority thereof or therein having power to levy tax in the PRC, unless such withholding or deduction is required by the laws of the PRC. In that event, the Issuer shall pay such additional amounts as will result in the receipt by the Bondholders of such amounts as would have been received by them if no such withholding or deduction had been required, **provided, however, that** no such additional amounts shall be payable in respect of any Bond in certain circumstances set out in "*Terms and Conditions – Taxation and Withholding*".
Listing	Application will be made for the listing of the Bonds on the Hong Kong Stock Exchange by way of debt issues to Professional Investors only.
Governing Law	English law (other than Condition 3(a) relating to subordination of the Bonds which is governed by and shall be construed in accordance with PRC law).
Rating.	The Bonds are expected to be rated "BBB+" by S&P and "BBB+" by Fitch.
ISIN	XS2431453336
Common Code.	243145333
Legal Entity Identifier of the Bank	5493001KQW6DM7KEDR62
Fiscal Agent	China Construction Bank (Asia) Corporation Limited (中國建設銀行(亞洲)股份有限公司).
Registrar and Transfer Agent.	China Construction Bank (Asia) Corporation Limited (中國建設銀行(亞洲)股份有限公司).
Paying Agent and Calculation Agent	China Construction Bank (Asia) Corporation Limited (中國建設銀行(亞洲)股份有限公司).

Clearing Systems	The Bonds will be represented initially by the Global Bond Certificate, which will be registered in the name of a nominee of, and deposited on the Issue Date with, a common depositary for Euroclear and Clearstream. Interests in the Global Bond Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream. Except as described in "*Summary of Provisions Relating to the Bonds in Global Form*" in this Offering Circular, certificates for the Bonds will not be issued in exchange for interests in the Global Bond Certificate.

RISK FACTORS

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

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

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

RISKS RELATING TO THE BANK'S BUSINESS

Uncertainties and instability in global market conditions could adversely affect the Bank'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, 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.

While the International Monetary Fund expects global economic growth to be 5.5 per cent. in 2021, there are a number of uncertainties ahead. The escalating tensions between the PRC and the United States, including ongoing trade disputes and deterioration in diplomatic relations, have contributed to increased market volatility, weakened consumer confidence and diminished expectations for economic growth around the world. Some of these tensions have manifested themselves through actions taken and sanctions imposed by the governments of the United States and the PRC in 2020 and early 2021. The United States has imposed a range of sanctions and trade restrictions on Chinese persons and companies, focusing on entities the United States believes are involved in human rights violations, information technology and communications equipment and services, and military activities, among others. In response, the PRC has announced a number of sanctions and trade restrictions that target or provide authority to target foreign officials and companies, including those in the United States. Heightened geopolitical tensions between the United States and the PRC continue to cause significant uncertainty in the global macroeconomy. Furthermore, global economic fluctuations have also had significant impacts on the global economy and on the Group. First, a rise in global trade protectionism will negatively impact the trade-dependent economies in Asia. Second, the interplay of U.S. fiscal and monetary policies, and aggressive quantitative easing programmes in Japan and Europe may lead to more volatile global capital flows, which could in turn impact global growth. Third, in the UK a remain-or-leave referendum on its membership within the European Union ("**EU**") was held in June 2016, the result of which favoured the exit of the UK from the EU ("**Brexit**"). On 31 January 2020, the UK officially exited the EU following a UK-EU Withdrawal Agreement signed in October 2019. The UK and the EU signed the Brexit trade deal on 30 December 2020 and the UK completed its separation from the EU with effect from 1 January 2021. While the UK and the EU had reached the trade deal, the effect of Brexit remains uncertain, and Brexit has and may continue to create negative economic impact and increase volatility in the global market. These could include falls in stock exchange indices, a fall in the value of the key trading currencies such as the Euro and/or greater volatility of markets in general due to the increased uncertainty. Fourth, 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. To the extent uncertainty regarding the economic outlook negatively impacts consumer confidence and consumer credit factors globally, the Group's business and results of operations could likewise be significantly and adversely affected.

The outbreak of COVID-19 and its spread worldwide have caused and are expected to continue to bring uncertainty and volatility in global markets, and the future effects of the COVID-19 pandemic are uncertain. The COVID-19 pandemic necessitated that governments respond at unprecedented levels to protect public health, local economies and livelihoods. It has affected different countries and regions at different times and varying degrees as it has developed. The varying government support measures and restrictions imposed in response to the COVID-19 pandemic have added challenges, given the rapid pace of change and significant operational demands. The speed at which countries and territories will be able to unwind the government support measures and restrictions and return to pre COVID-19 economic levels will vary based on the levels of infection, local governmental decisions and access to and ability to roll out vaccines. There remains a risk of subsequent waves of infection, as evidenced by the recently emerged variants of the virus. Renewed outbreaks emphasise the ongoing threat of COVID-19 even in countries that have recorded lower than average cases so far. Please also refer to "*Risk Factors – Risks Relating to the Bank's Business – Any force majeure events, including occurrence of natural disasters or outbreaks of contagious diseases (such as COVID-19) may have an adverse effect on the Bank's business operations, financial condition and results of operations*" and "*Recent Developments – Impact of COVID-19 pandemic and the Group's main countermeasures*".

In addition, as the COVID-19 outbreak hampers business activities in the world, including China, the CBIRC has promulgated a series of measures to relax credit controls and increase financial support to small and medium-sized enterprises ("**SMEs**") to combat the challenges arising from the COVID-19 outbreak. In particular, it has encouraged banking institutions to increase lending to SMEs by lowering loan rates and increasing the amounts these enterprises could borrow. However, SMEs are more vulnerable to fluctuations in the macroeconomy and the adverse impact brought by major economic crisis or regulatory changes. In addition, these enterprises may not be able to provide reliable information necessary for the Bank to assess the credit risks involved. In the absence of accurate assessment of the relevant credit risks, the non-performing loans of the Bank may increase significantly if a large number of its SMEs clients are affected by major economic crisis or regulatory changes. As a result, this may have an impact on the Bank's overall risk profile and quality of the loan portfolio, which could in turn materially and adversely affect its business, financial condition and results of operations. Separately, there can be no assurance that the policies, laws and regulations governing the PRC banking industry, in particular those relating to loans to SMEs (e.g. incentive policies to encourage lending to SMEs), will not change in the future or that any such changes will not materially and adversely affect the Bank's business, financial condition and results of operations.

Investors should be aware that there is a recent history of 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.

The Bank has a concentration of credit exposure to certain customers and certain sectors

As at 30 June 2021, the Bank's corporate loans and advances to the domestic (i) transportation, storage and postal services industries; (ii) manufacturing industry; (iii) leasing and commercial services industries; (iv) production and supply of electric power, heat, gas and water industries; and (v) wholesale and retail trade industries accounted for 9.29 per cent., 7.69 per cent., 9.09 per cent., 4.96 per cent. and 4.71 per cent. of the Bank's gross loans and advances excluding accrued interest, respectively. If any of these industries in which the Bank's loans are highly concentrated experiences a significant downturn, the Bank's asset quality, business, financial condition and results of operations may be adversely affected, which in turn may negatively affect its ability to service the Bonds and to satisfy its other obligations under the Bonds.

Any significant or extended downturn in any of these sectors may reduce the borrowing activities in these sectors, as well as increase the level of the Bank's impaired loans and related provisions for impaired loans, any of which could in turn reduce its net profit and adversely affect its business, financial condition and results of operations.

The Bank is also exposed to the fluctuations of the real estate market through its extension of personal residential mortgage loans and individual commercial property mortgage loans. The Bank's real estate related loans mainly include both corporate real estate loans and personal residential mortgage loans. As at 30 June 2021, corporate real estate loans amounted to RMB742,906 million, representing 4.11 per cent. of the Group's gross loans and advances excluding accrued interest, and its corresponding NPL ratio was 1.56 per cent. As at 30 June 2021, personal residential mortgages amounted to RMB6,105,839 million, representing 33.72 per cent. of the Group's gross loans and advances to customers and its corresponding NPL ratio was 0.20 per cent. Notwithstanding prudential measures the Bank has put in place to maintain a portfolio of high quality real estate loans with sustainable growth, including imposing stringent standards for the acceptance of new customers for personal residential mortgage loans, the PRC real estate market is subject to volatility and property prices have experienced significant fluctuations in recent years. In the event that PRC real estate prices experience a significant prolonged decline, the Bank's asset quality will likely be negatively affected. Further, the PRC government has already implemented and continues to implement certain adjustment measures aimed at managing the fluctuations of the real estate market. These policies may have an adverse effect on the quality as well as the rate of growth of loans extended to the real estate industry. In addition, if the real estate market in China experiences a significant downturn, the value of the real estate securing the Bank's loans may decrease, resulting in a reduction in the amount the Bank can recover. Any of the above developments or a combination thereof may adversely affect the Bank's asset quality, business, financial condition and results of operations, which in turn may negatively affect its ability to service the Bonds and to satisfy its other obligations under the Bonds.

In accordance with national policies aimed at limiting the over-development of certain industries with excess capacity, including the iron and steel, cement, electrolytic aluminium, plate glass and shipbuilding industries, the Bank carefully manages its exposure to these industries and has adopted a strict policy towards extending loans to these industries in order to reduce its loan exposure and risks associated with loans to these high-risk industries.

Notwithstanding the credit measures the Bank has put in place, in the event the PRC government issues policies to further restrict such industries or there is deterioration in the production and operation of the Bank's customers from industries with overcapacity, the quality of the Bank's loans could suffer, which could in turn have an adverse effect on its business, financial position and results of operations, and may negatively affect its ability to service the Bonds and to satisfy its other obligations under the Bonds.

Since 2012, with the aim of reinforcing the risk management of loans to local government financing vehicles ("**LGFV**"), the PRC State Council ("**State Council**"), the CBIRC and the PBOC, along with several other PRC regulatory authorities, have promulgated a series of notices, guidelines and other regulatory documents to direct PRC banks and other financial institutions to further optimise and strengthen their risk management measures regarding their loans to LGFV. The Bank has adopted a series of measures such as imposing stringent controls on granting loans to LGFV and strengthening credit related policies to manage and control the risks associated with loans to LGFV. Unfavourable developments in macroeconomic conditions, adverse changes to state policies, the financial condition of local governments and other factors may adversely affect the debt repayments of these financing platforms, which may in turn adversely affect the Bank's asset quality, financial condition and results of operations. Such developments may negatively affect its ability to service the Bonds and to satisfy its other obligations under the Bonds.

While the Bank introduced heightened criteria in 2009 to manage the risks associated with LGFV loans, including stricter requirements for guarantees, it cannot be assured that these loans will not default in the event of macroeconomic instability or other policy changes introduced by the PRC government. Given their importance to the composition of the Bank's loan portfolio, the default of any portion of such loans for any reason may affect its loan quality and will adversely affect its business, financial position and results of operations. Such developments may negatively affect its ability to service the Bonds and to satisfy its other obligations under the Bonds. At the end of June 2021, the Group's gross loans and advances to customers stood at RMB18.11 trillion, an increase of RMB1.32 trillion or 7.87 per cent. from 31 December 2020, mainly due to the increase in domestic loans; its NPL ratio as at 30 June 2021 was 1.53 per cent., representing a decrease of 0.03 percentage point as compared to the corresponding ratio as at 31 December 2020. As at 30 June 2021, the NPL ratio for corporate loans and advances was 2.49 per cent., representing a decrease of 0.07 percentage point from 31 December 2020, and the NPL ratio for personal loans and advances was 0.39 per cent., representing a decrease of 0.02 percentage point from 31 December 2020. The NPL ratio for overseas operations and subsidiaries as at 30 June 2021 was 1.71 per cent., representing a decrease of 0.24 percentage point from 31 December 2020.

The Bank may be unable to realise the full value of the collateral or guarantees securing the Bank's loan portfolio

As at 30 June 2021, the balances of the Group's unsecured loans, guaranteed loans, loans secured by property and other immovable assets and other pledged loans were RMB5,862,906 million, RMB2,486,138 million, RMB8,229,341 million and RMB1,486,354 million, respectively, accounting for 32.38 per cent., 13.73 per cent., 45.44 per cent. and 8.21 per cent. of the Group's gross loans and advances to customers, respectively. If there is substantial deterioration in the business condition of a borrower which adversely affects the borrower's ability to repay, the Bank may not be able to recover the amounts lent under credit loans, which will in turn adversely affect the Bank's financial position and results of operations, and may negatively affect the Bank's ability to service the Bonds and to satisfy its other obligations under the Bonds. Guaranteed loans are loans that are guaranteed by affiliates of the borrower or other third parties. Notwithstanding the fact that such loans are guaranteed, the Bank's exposure to the guarantor is generally unsecured and if the financial position of the guarantor deteriorates significantly, its ability to recover such loans will correspondingly deteriorate. Furthermore, the guarantee provided by such guarantor may be determined by the court as invalid if the guarantor fails to comply with certain laws and regulations in the PRC, including the "PRC Civil Code", "Interpretation of Supreme People's Court on Application of the Security System under the PRC Civil Code" and "Interpretation of the Supreme People's Court on the Application of Real Right Part of the PRC Civil Code (I)". A significant percentage of the Bank's loan portfolio is secured by collateral, consisting mainly of domestic assets such as properties, land use rights and securities. The value of the collateral is generally higher than the amount loaned but such value is affected by factors the Bank cannot control including those affecting the PRC economy. If the PRC economy deteriorates, it could result in a decrease in the value of the collateral which will lead to the reduction of the amount of the loan that can be recovered. In addition, the procedures for liquidating or otherwise realising the value of collateral of borrowers in China may be protracted, and the enforcement process in China may be difficult. According to a judicial interpretation issued by the Supreme Court of the PRC, effective from 21 November 2004 and amended in December 2008 and December 2020, the court may seal up the collateral necessary for the life of the borrower and his dependent family members, but shall not auction, sell or use it to pay a debt. As a result, it may be difficult and time-consuming for banks to take control of or liquidate the collateral securing NPLs. Accordingly, if a borrower fails to repay and if the Bank is not able to timely realise the entire or sufficient part of the value of collateral, pledged assets or guarantees represented, the Bank's asset quality, business, financial condition and results of operations may be adversely affected, which in turn may negatively affect the Bank's ability to service the Bonds and to satisfy its other obligations under the Bonds.

The Bank may not be able to maintain or reduce its current NPL ratio

The Bank's results of operations have been negatively affected by its NPLs, which may continue to affect the Bank's current and future business performance. As at 30 June 2021, the amount of the Group's NPLs was RMB276,981 million and the NPL ratio was 1.53 per cent., representing a decrease of 0.03 percentage point as compared to the corresponding ratio as at 31 December 2020. As at 30 June 2021, the NPL ratio for corporate loans and advances was 2.49 per cent., representing a decrease of 0.07 percentage point from 31 December 2020, and the NPL ratio for personal loans and advances was 0.39 per cent., representing a decrease of 0.02 percentage point from 31 December 2020. The NPL ratio for overseas operations and subsidiaries as at 30 June 2021 was 1.71 per cent., representing a decrease of 0.24 percentage point from 31 December 2020. The NPL ratio for credit card loans as at 30 June 2021 was 1.28 per cent., representing a decrease of 0.12 percentage point from 31 December 2020.

It cannot be assured that the Bank will be able to reduce or even maintain the same level in the future. This is because the quality of the Bank's loan portfolio is affected by factors which the Bank is unable to control, including any adverse changes to the PRC economic structure and any deterioration in the PRC's economy or the global economy. Adverse changes in the economic environment in the PRC or globally as well as force majeure events including natural disasters or outbreak of diseases may all have a negative impact on the ability of the Bank's customers to repay the loans. Factors such as deterioration in the credit conditions of the Bank's customers' trading partners, decline in both residential and commercial property prices, an increase in the unemployment rate in China and the deterioration in the profitability of corporate borrowers will also lead to a reduction in the quality of the Bank's assets. All of these factors can lead to an increase in the Bank's NPL ratio, which will correspondingly adversely affect its business, financial condition and results of operations, and may negatively affect the Bank's ability to service the Bonds and to satisfy its other obligations under the Bonds. See also *"Risk Factors – Risks relating to the Bank's Business – Uncertainties and instability in global market conditions could adversely affect the Bank's business, financial condition and results of operations"*.

The Bank's allowance for impairment losses may not be adequate to cover future actual losses to its loan portfolio

As at 30 June 2021, the Group's allowance for impairment losses on loans and advances to customers measured at amortised cost was RMB615,141 million, and the ratio of its allowance for impairment losses to total assets was 2.06 per cent. The amount of the allowance for impairment losses to loans is based on the Bank's current assessment of and expectations concerning various factors that may affect the quality of its loan portfolio. These factors include, among other things, the borrowers' financial condition, repayment ability and repayment intention, the realisable value of any collateral and the likelihood of support from guarantors, as well as the PRC's economy, macroeconomic policies, interest rates, exchange rates and legal and regulatory environment. The above-mentioned factors are beyond the Bank's control. If the Bank's assessment of and expectations concerning these factors differ from actual developments in the future, or if the quality of its loan portfolio deteriorates, its allowance for impairment losses may not be adequate to cover its actual losses and the Bank may need to make additional provisions for impairment losses, which may adversely affect its business, financial condition and results of operations and, in turn, may negatively affect the Bank's ability to service the Bonds and to satisfy its other obligations under the Bonds.

The expanding range of products and services exposes the Bank to new risks

The Bank has expanded and intends to continue to expand the range of its products and services. As at 30 June 2021, the Bank had 34 overseas institutions and 19 major subsidiaries with a total of 592 entities, including 425 domestic ones and 167 overseas ones. The Group has more than 200 overseas entities, covering 30 countries and regions including Hong Kong, Singapore, Germany, South Africa, Japan, South Korea, the U.S., the U.K., Vietnam, Australia, Russia, the United Arab Emirates, Taiwan, Luxembourg, Macau, New Zealand, Canada, France, Netherlands, Spain, Italy, Switzerland, Brazil, Cayman Islands, Ireland, Chile, Indonesia, Malaysia, Poland and Kazakhstan and maintained wholly-owned operating subsidiaries including CCB Asia, CCB London, CCB Russia, CCB Europe, CCB New Zealand, CCB Brasil and CCB Malaysia and held 60 per cent. of the total share capital of CCB Indonesia. Expansion of its business activities exposes the Bank to a number of risks and challenges, including the following:

- the Bank may have limited or no experience in certain new business activities or geographies and may not be able, or may take a relatively long period, to compete effectively in these areas;

- the Bank may not be able to devote sufficient resources or management capacity to certain new business activities or geographies;

- there is no guarantee that the new business activities will meet the Bank's expectations of their profitability;

- the Bank may not be able to hire new personnel or retrain existing personnel who are able to conduct new business activities; and

- the Bank may not be able to continually add to the capability of its risk management and information technology systems to support a broader range of activities.

If the Bank is not able to achieve the intended results in these new business areas, its business, financial condition and results of operations may be adversely affected, which in turn may negatively affect the Bank's ability to service the Bonds and to satisfy its other obligations under the Bonds. In addition, if the Bank fails to promptly identify and expand into new areas of business to meet the increasing demand for certain products and services, it may fail to maintain its market share or lose some of its existing customers to its competitors.

Furthermore, the Bank's international expansion into multiple jurisdictions exposes the Bank to a variety of new regulatory and business challenges and risks and has increased the complexity of its risks in a number of areas, including currency risk, interest rate risk, credit risk, regulatory and compliance risk, reputational risk and operational risk. If the Bank is unable to manage the risks resulting from its international expansion, its reputation, business, financial condition and results of operations may be adversely affected, which in turn may negatively affect the Bank's ability to service the Bonds and to satisfy its other obligations under the Bonds.

The Bank is subject to liquidity risk

The Bank regularly monitors the gap between its assets and liabilities for various maturities in order to assess its liquidity risk for different periods. As at 30 June 2021, the loan-to-deposit ratio of the Group was 77.83 per cent., which increased as compared to a loan-to-deposit ratio of 78.49 per cent. as at 31 December 2020. Customer deposits have historically been the main source of the Bank's funding. Generally, the Bank's short-term customer deposits have not been withdrawn upon maturity and have represented a stable source of funding. However, it cannot be assured that this will continue to be the case. If a substantial portion of the Bank's depositors withdraw their demand deposits or do not roll over their time deposits upon maturity, the Bank may have no choice but to seek other sources of funding to meet its funding requirements. It cannot be assured that the Bank can find alternative sources of financing based on normal commercial terms when necessary. Furthermore, the Bank's ability to obtain additional funds may also be affected by other factors including factors that the Bank may find difficult to control or be totally incapable of controlling, such as the deterioration of overall market conditions, severe disturbance to the financial market or a bleak outlook for industries where it has substantial credit exposure. Any of these factors could result in adverse effects on the Bank's liquidity, business, financial position and results of operations, which in turn may negatively affect the Bank's ability to service the Bonds and to satisfy its other obligations under the Bonds.

The adoption of the PRC deposit insurance scheme may adversely affect the Bank's deposit-taking business and financial position

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

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

The Bank is subject to credit risks with respect to certain off-balance sheet commitments and guarantees

In the ordinary course of the Bank's business, the Bank makes commitments and guarantees which are not reflected as liabilities on its balance sheet, including providing bank acceptances, guarantees, letters of credit and other credit commitments. As at 30 June 2021, the balance of the Group's credit commitments was RMB3,459,288 million, representing an increase of RMB45,758 million as compared to RMB3,413,530 million as at 31 December 2020. The Bank is subject to credit risks on its commitments and guarantees because certain of its commitments and guarantees may need to be fulfilled as a result of the Bank's customers' default. If the Bank is not able to obtain payment from its customers in respect of these commitments and guarantees or enforce its contracts with them, the Bank's business, financial condition and results of operations may be adversely affected, which in turn may negatively affect the Bank's ability to service the Bonds and to satisfy its other obligations under the Bonds.

The Bank is subject to risks associated with its hedging activities and other derivative transactions

The Bank has entered into derivative transactions for hedging purposes as well as conducted derivative transactions on behalf of its customers. Accordingly, the Bank faces market and operational risks associated with these transactions. At present, the regulation of China's derivative market remains in the development stage and requires further improvement and this increases the risks of the derivative transactions the Bank enters into. Further, the Bank's ability to monitor, analyse and report these transactions is limited by its information technology. Accordingly, the Bank's business, financial position and results of operations may be adversely affected given the volatility of the prices of these derivatives, which in turn may negatively affect the Bank's ability to service the Bonds and to satisfy its other obligations under the Bonds.

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

The Bank has adopted the IFRS 9 expected loss impairment model in recognising and providing for credit losses. 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.

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

The Bank's business, financial position and results of operations may be affected by its policies regarding provisioning and loan classification. If the Bank's approach to provisioning policies and/or loan classification 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 Bonds and to satisfy its other obligations under the Bonds.

The Bank's risk management and internal control policies and procedures may not be effective in completely managing and avoiding all of its risks

In recent years, the Bank has achieved progress in terms of risk management by improving its policies and procedures. However, as the Bank's business continues to develop, the Bank's risk management and internal control policies may not be able to effectively reduce and mitigate all types of risks, including unexpected risks and those of which the Bank is unaware of. In addition, the Bank's risk management capabilities are limited by the information, tools and technologies available to the Bank. Furthermore, the Bank's ability to control market risk and liquidity risk is constrained by the current PRC laws and regulations that restrict the types of financial instruments and investments the Bank may hold. If the Bank is unable to effectively implement the enhanced risk management and internal control policies and procedures, or if the intended results of such policies and procedures are not achieved in a timely manner, its asset quality, business, financial condition and results of operations may be adversely affected, which in turn may negatively affect the Bank's ability to service the Bonds and to satisfy its other obligations under the Bonds.

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

The Bank's business is highly dependent on the ability of its information technology systems to accurately process large numbers of transactions across numerous markets and products in a timely manner. The proper functioning of the Bank's financial control, risk management, accounting, customer service and other data processing systems, together with the communication networks between the Bank's various branch outlets and its main data processing centre, is critical to its business and its ability to compete effectively. The Bank's data centres provide backup data that could be used in the event of a system breakdown or a failure of the Bank's primary systems, and have established alternative communications networks where available. However, the Bank does not operate all of its backup systems on a real-time basis and it cannot be assured that the Bank's business activities would not be substantially disrupted if there was a partial or complete failure of any of these primary information technology systems or communications networks. Such failures could be caused by, among other things, software flaws, computer virus attacks or conversion errors due to system upgrading. In addition, any security breach caused by unauthorised access to information or systems, or intentional destruction or loss or corruption of data, software, hardware or other computer equipment, could have an adverse effect on the Bank's business, financial condition and results of operations, which in turn may negatively affect the Bank's ability to service the Bonds and to satisfy its other obligations under the Bonds.

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

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

The Bank may suffer from economic loss, penalties from regulatory institutions and severe damage to its reputation as a result of fraud or other misconduct committed by the Bank's employees or third parties. Types of misconduct conducted by the Bank's employees in the past include, among other things, theft, embezzlement or misappropriation of customers' funds; mishandling of deposits-taking business and settlement of payment transactions; improper extensions of credit; improper accounting; fraud; and the giving or acceptance of bribes. Types of misconduct by third parties which may affect the Bank include, among other things, fraud, theft, robbery and certain armed crimes. In addition, the Bank's employees may commit errors that could subject the Bank to financial claims as well as regulatory actions. While the Bank is constantly strengthening its inspection efforts and increasing its precautionary measures to prevent misconduct by employees and third parties, given the Bank's significant number of branch outlets, it cannot be assured that the Bank can identify and prevent all fraudulent behaviours of misconduct or that the preventive measures the Bank has adopted will be effective in every circumstance. As at 30 June 2021, the Bank had a total of 14,656 operating entities. It cannot be assured that any fraud or other misconduct committed by the Bank's employees or third parties, whether involving past acts that have gone undetected or future acts, will not have an adverse effect on the Bank's business, financial condition and results of operations, which in turn may negatively affect the Bank's ability to service the Bonds and to satisfy its other obligations under the Bonds.

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 fails 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 Bonds and to satisfy its other obligations under the Bonds.

The Bank does not possess the relevant land use right certificates or building ownership certificates for some of the properties it holds, and it is subject to risks that its leases over certain properties may not be renewed

The Bank leases a significant number of properties in the PRC, primarily as business premises for its branch outlets. It cannot be assured that all lessors of the Bank's leased business premises have the relevant land use right certificates or building ownership certificates. As a result, third parties may be able to challenge the validity of the Bank's leases. In addition, it cannot be assured that the Bank will be able to renew its leases on acceptable terms upon their expiration. If any of the Bank's leases were terminated as a result of challenges by third parties or failure of the lessors to renew them upon expiration, the Bank may be forced to relocate affected branch outlets and, if it fails to find suitable replacement sites on acceptable terms, its business, financial condition and results of operations may be adversely affected. This may negatively affect the Bank's ability to service the Bonds and to satisfy its other obligations under the Bonds.

In addition, the Bank occupies certain parcels of land and buildings for which it does not have the relevant land use right certificates or building ownership certificates. The Bank is in the process of applying for the relevant land use rights and building ownership certificates that the Bank does not yet hold. However, it cannot be assured that the Bank's ownership rights would not be adversely affected in respect of any parcels of land or buildings for which the Bank was unable to obtain the relevant certificates.

The Bank may face situations where it cannot meet the capital adequacy requirements imposed by the relevant PRC regulators or as a G-SIB pursuant to the Third Basel Capital Accord ("Basel III")

According to the "Administrative Measures for the Capital of Commercial Banks (for Trial Implementation)" ("**the CBIRC Capital Regulations**") formulated by the previously-named China Banking Regulatory Commission (now called the CBIRC) to implement the Basel III in June 2012 and effected on 1 January 2013, the capital adequacy ratio of different tiers of a commercial bank shall not be lower than the following minimum requirements at any point in time: (i) the core tier 1 capital adequacy ratio shall not be lower than 5 per cent.; (ii) the tier 1 capital adequacy ratio shall not be lower than 6 per cent.; (iii) the capital adequacy ratio shall not be lower than 8 per cent.; (iv) the capital conservation buffer shall not be lower than 2.5 per cent.; and (v) the countercyclical buffer shall not be lower than 0 to 2.5 per cent. In addition, the Bank as a domestic systemically important bank will also be required to maintain a further 1 per cent. capital surcharge above prevailing core tier 1 capital requirements. Since January 2013, the Bank has calculated its capital adequacy ratio in accordance with these measures.

Furthermore, the Financial Stability Board has identified the Bank as a globally systemically important bank ("**G-SIB**") since November 2017. As a G-SIB, the Bank is required to satisfy heightened capital adequacy ratios pursuant to Basel III. As at 30 June 2021, the Group's total capital ratio, Tier 1 ratio and Common Equity Tier 1 ratio, which were calculated in accordance with the CBIRC Capital Regulations issued by the CBIRC, were 16.58 per cent., 13.80 per cent. and 13.23 per cent. respectively, meeting the regulatory requirements. In November 2017, the Basel Committee on Banking Supervision further issued new regulations on how banks calculate risk-weighted assets, which are expected to be implemented in 2022. The new regulations focus on enhancing the robustness of standard risk-weighted asset calculation models and limiting the scope of use of banks' internal capital models. If the new regulations are implemented and adopted by the Bank, it may further affect the Bank's future capital raising plan.

Although the Bank has already implemented medium to long term capital management policies to strengthen capital management and its capability to maintain growth, some regulatory developments may affect the Bank's ability to continually comply with capital adequacy requirements, including the decline in asset quality, the decline in value of its investments, the raising of minimum capital adequacy ratios by the CBIRC and the changes in calculations of capital adequacy ratios by the CBIRC.

In order to support a steady growth and development, the Bank may need to raise more capital to ensure that its capital complies with or exceeds the minimum regulatory requirement. In its future plans to raise capital, the Bank may issue any share securities that can contribute towards core tier 1 capital or share or perpetual securities that can contribute towards additional tier 1 capital or any debt securities that can contribute towards additional tier 1 capital or tier 2 capital. For instance, on 14 September 2020, the Bank issued RMB65,000,000,000 4.20 per cent. Domestic Tier 2 Capital Bonds due 2030 ("**Domestic Tier 2 Capital Bonds due 2030**"). The Domestic Tier 2 Capital Bonds due 2030 are fixed rate bonds with a term of 10 years and the Bank has a conditional right to redeem the Domestic Tier 2 Capital Bonds due 2030 at the end of the fifth year. The funds raised from the issuance of the Domestic Tier 2 Capital Bonds due 2030 will be used to replenish the Bank's Tier 2 capital in accordance with the applicable laws and the approvals from the regulatory authorities.

The Bank's capital-raising ability may be restricted by the Bank's future business, financial and operational results, the Bank's credit rating, necessary regulatory approvals, overall market conditions including PRC and global economic, political and other conditions at the time of any capital raising.

If the Bank fails to meet the capital adequacy requirements, the CBIRC may require the Bank to take corrective measures, 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, business, financial condition and results of operations, which in turn may negatively affect the Bank's ability to service the Bonds and to satisfy its other obligations under the Bonds.

The Bank may not manage risks associated with the replacement of benchmark indices effectively

The Financial Stability Board has observed that the decline in interbank short-term unsecured funding poses structural risks for interest rate benchmarks that reference these markets. In response, regulators and central banks in various jurisdictions have convened national working groups ("**NWGs**") to identify alternative replacement 'risk-free' rates ("**RFRs**") for these interbank offered rates ("**IBORs**") and, where appropriate, to make recommendations that would facilitate an orderly transition to these RFRs.

Following the announcement by the FCA on 27 July 2017 where the United Kingdom Financial Conduct Authority announced that it will no longer persuade or compel banks to submit rates for the calculation of the LIBOR benchmark after 2021, the NWGs for the impacted currencies were tasked with providing guidance and support to financial and non-financial firms to help them facilitate an orderly transition of the relevant LIBORs to their chosen RFRs.

The expected discontinuation of certain key IBORs such as LIBOR, the adoption of RFRs by the market, and the development of RFR products by the Bank, introduce a number of risks for the Bank, its clients, and the financial services industry more widely. These include, but are not limited to:

- regulatory compliance, legal and conduct risk, arising from both the continued sale of products referencing IBORs, sales of products referencing RFRs and the transition of legacy contracts to alternative rates. There is a risk that the Bank is unable to meet regulatory milestones associated with the discontinuance of sale of certain IBOR products, which may result in regulatory investigations or reviews being conducted into the Bank's preparation and readiness for the replacement of IBORs with alternative reference rates. Additionally, if the Bank's sales processes are not appropriately adapted to account for the additional complexity of new products, or new RFR market conventions, additional conduct risks and regulatory actions may result and there may be a heightened risk of disputes;

- legal risks associated with the enforceability of fall-back provisions in IBOR contracts. There is a risk that some contracts will not be transitioned before the relevant IBOR is discontinued and the parties will need to rely on the "fall-back" provisions of those contracts. As these fall-back provisions do not always contemplate the permanent cessation of the relevant IBOR, there is a risk that the provisions may not work from a contractual, practical or financial perspective, potentially resulting in unintended outcomes for clients. This may lead to complaints, litigation and/or regulatory action. While legislative solutions have been proposed in the UK, U.S. and EU, market participants will need to consider the impact of any proposals ultimately adopted; and

- financial risks resulting from the discontinuation of IBORs and the development of RFR market liquidity will affect the Bank throughout transition. The differences in IBOR and RFR interest rate levels will create a basis risk that the Bank will need to actively manage through appropriate financial hedging. Basis risk in the trading book and in the banking book may arise out of the asymmetric adoption of RFRs across assets and liabilities and across currencies and products. In addition, this may limit the ability to hedge effectively.

If any of these risks materialise, it could have a material adverse effect on the Bank's business, financial condition, results of operations, prospects and customers.

The Bank is subject to certain operational requirements as well as guidelines set by the PRC banking regulatory authorities. The Bank is also subject to the supervision and inspection of domestic regulators and overseas regulators in jurisdictions where it operates

The Bank is subject to regular and irregular supervision and inspection by China's regulatory institutions, including the MOF, the PBOC, the CBIRC, the CSRC, the previously-named China Insurance Regulatory Commission (now called the CBIRC), the State Administration of Taxation ("**SAT**"), the State Administration for Market Regulation ("**SAMR**"), the SAFE and the National Audit Office ("**NAO**").

The Bank is subject to certain operational requirements and guidelines set by the PRC banking regulatory authorities. It cannot be assured that the Bank will be able to meet these operational requirements and guidelines in the future at all times, or that no sanction will be imposed on the Bank in the future if the Bank fails to do so. If sanctions are imposed on the Bank for the breaches of these or other operational requirements and guidelines, its business, financial condition and results of operations may be adversely affected, which in turn may negatively affect the Bank's ability to service the Bonds and to satisfy its other obligations under the Bonds.

Furthermore, the Bank may also be subject to inspection and supervision of overseas regulatory institutions in overseas jurisdictions where it operates. The Bank's overseas branches, subsidiaries and representative offices must follow local laws, regulations and the regulatory requirements of relevant local regulatory institutions of their respective jurisdictions. It cannot be assured that the Bank's overseas branches, subsidiaries and representative offices will be able to meet the applicable laws and regulatory requirements at all times. If the Bank is not able to meet these requirements, there may be an adverse impact on the Bank's business in these jurisdictions. Some of these inspections have led to penalties and other sanctions imposed on the Bank as a result of non-compliance. Although none of the penalties and sanctions imposed on the Bank have had a material adverse impact on the Bank's operations, financial position, and business performance, it cannot be assured that future inspections by regulatory institutions will not result in penalties or sanctions which may adversely affect the Bank's operations, reputation, business, financial position and results of operations, which in turn may negatively affect the Bank's ability to service the Bonds and to satisfy its other obligations under the Bonds.

The Bank may be subject to OFAC penalties if it conducts transactions in violation of OFAC regulations

The United States currently imposes various economic sanctions, which are administered by the U.S. Treasury Department's Office of Foreign Assets Control ("**OFAC**") and which apply only to U.S. persons and, in certain cases, to foreign subsidiaries of U.S. persons or to transactions involving certain items subject to U.S. jurisdiction. Similar sanctions are administered by the United Kingdom, the European Union, United Nations Security Council and other applicable jurisdictions. These sanctions are intended to address a variety of policy concerns, including, among other things, denying certain countries, certain individuals and entities, the ability to support international terrorism and to pursue weapons of mass destruction and missile programmes. Countries which are currently subject to sanctions for different reasons include but are not limited to Crimea region of Ukraine, Cuba, Iran, Libya, North Korea, Syria and Sudan. The Bank does not believe that these sanctions are applicable to any of the Group's activities. However, if the Group engages in any prohibited transactions by any means or it was otherwise determined that any of the Group's transactions violated applicable sanctions regulations, the Group could be subject to penalties and its reputation and ability to conduct future business in the U.S. or other relevant jurisdictions or with U.S. persons or other relevant persons could be adversely affected. As the Bank's business, financial condition and results of operations may be adversely affected, the Bank's ability to service the Bonds and to satisfy its other obligations under the Bonds may also be negatively affected.

Potential investors should not place undue reliance on the financial information that is not audited or reviewed

The consolidated interim financial information of the Group as at and for the six months ended 30 June 2020 and 2021 has not been and will not be audited by the Bank's independent auditors. The unaudited but reviewed consolidated interim financial information of the Group as at and for the six months ended 30 June 2020 and 2021 should not be relied upon by investors to provide the same quality of information associated with information that has been subject to an audit. None of the Managers or their respective affiliates, directors, officers, employees, agents, representatives or advisers or any person who controls any of them makes any representation or warranty, express or implied, regarding the sufficiency of such unaudited but reviewed consolidated financial statements for an assessment of, and potential investors must exercise caution when using such data to evaluate the financial condition and results of operations of the Bank or the Group. The unaudited but reviewed consolidated interim financial information of the Group as at and for the six months ended 30 June 2021 should not be taken as an indication of the expected financial condition or results of operations of the Group for the full financial year ending 31 December 2021.

The consolidated interim financial information of the Group as at and for the nine months ended 30 September 2020 and 2021 has not been and will not be audited or reviewed by the Bank's independent auditors. The consolidated interim financial information should not be relied upon by investors to provide the same quality of information associated with information that has been subject to an audit or review. None of the Managers or their respective affiliates, directors, officers, employees, agents, representatives or advisers or any person who controls any of them makes any representation or warranty, express or implied, regarding the sufficiency of such unaudited but reviewed consolidated financial statements for an assessment of, and potential investors must exercise caution when using such data to evaluate the financial condition and results of operations of the Bank or the Group. The unaudited and unreviewed consolidated interim financial information of the Group as at and for the nine months ended 30 September 2021 should not be taken as an indication of the expected financial condition or results of operations of the Bank for the year ending 31 December 2021.

Any force majeure events, including occurrence of natural disasters or outbreaks of contagious diseases (such as COVID-19) may have an adverse effect on the Bank's business operations, financial condition and results of operations

Any force majeure events, such as the occurrence of natural disasters or outbreaks of health epidemics and contagious diseases, including but not limited to the on-going COVID-19 outbreak caused by the SARS-CoV-2 virus, all variants of the avian influenza, severe acute respiratory syndrome ("**SARS**"), Middle East Respiratory Syndrome ("**MERS**"), Ebola virus, and swine flu caused by H1N1 virus ("**H1N1 Flu**"), may adversely affect the Bank's business, financial condition and results of operations. Possible force majeure events may give rise to additional costs to be borne by the Bank and have adverse effects on the quality of the Bank's assets, business, financial condition and results of operations. An outbreak of a health epidemic or contagious disease could result in a widespread health crisis and restrict the level of business activity in affected areas, which may in turn adversely affect the Bank's business. In particular, the on-going COVID- 19 outbreak has resulted in increased travel restrictions and extended delay or suspension of business activities in China and worldwide, which may result in adverse impact on the Bank's businesses. There is no assurance that the outbreak will not lead to decreased demand for services the Bank provides; nor is there assurance that the outbreak's adverse impact on the PRC and global economy and the Bank's customers will not adversely affect the level of non-performing loans. The outbreak may also adversely affect the Bank's ability to keep normal operations and provide uninterrupted services to its customers. The COVID- 19 epidemic has created and may further create negative economic impact and increase volatility in the PRC and global market and continue to cause increasing concerns over the prospects of the financial market in PRC.

Government restrictions imposed around the world to limit the spread of COVID- 19 resulted in a sharp decline in global economic activity during 2020. At the same time, governments also took steps designed to soften the extent of the damage to investment, trade and labour markets. Economic activity recovered unevenly in the second half of 2020 as some jurisdictions imposed renewed restrictions in the fourth quarter in response to a resurgence in COVID-19 cases. While a number of vaccine candidates have announced high efficacy rates, raising hopes of widespread immunisation from COVID- 19 being achieved by the end of 2021 and government restrictions being eased, the rollout of vaccination programmes is uneven across markets, hampering the global pace of recovery even as certain individual markets return to pre-pandemic levels of activity.

There is a material risk of a renewed drop in economic activity. The economic fallout from the COVID-19 pandemic risks increasing inequality across markets that have already suffered from social unrest. This leaves the burden on governments and central banks to maintain or increase fiscal and monetary stimulus. After financial markets suffered a sharp fall in the early phases of the spread of COVID- 19, they rebounded but still remain volatile. Depending on the degree to which global economic growth suffers permanent losses, financial asset prices may suffer a further sharp fall. Depending on the time taken for economic activity to return to previous levels, there could be further adverse impacts on the Bank income due to lower lending and transaction volumes.

The Group has duly implemented various policies issued by the PRC Central Government, as well as requirements of the Notice on Further Enhancing Financial Support for the Prevention and Control of the Novel Coronavirus Pneumonia Outbreak (關於進一步強化金融支持防控新型冠狀病毒感染肺炎疫情的通知), which was jointly published by the People's Bank of China (the "**PBOC**"), the PRC Ministry of Finance (the "**MOF**"), the CBIRC, the China Securities Regulatory Commission (the "**CSRC**") and the State Administration of Foreign Exchange ("**SAFE**"), and strengthened financial support for the prevention and control of the pandemic. COVID-19 has affected the operation of businesses in geographic regions and industries to varying degrees, which may in turn affect the quality or the yields of the Group's credit assets and other financial assets, the extent of which will depend on factors including evolvement of the pandemic, macro policies, resumption of work and activities in enterprises. The Group has been closely monitoring and will continue to closely monitor the evolvement of COVID-19 and in 2020 and 2021 actively addressed the impact of COVID-19 by continuously improving the quality and efficacy of operation and development, but there remains significant uncertainties in assessing the duration of the COVID-19 pandemic and its impact. A continued period of significantly reduced economic activity as a result of the impact of the COVID-19 pandemic could have a material adverse effect on the Bank's financial condition, results of operations, prospects, liquidity, capital position and credit ratings.

Please also refer to "*Risk Factors – Risks Relating to the Bank's Business – Uncertainties and instability in the global market conditions could adversely affect the Bank's business, financial condition and results of operations*" and "*Recent Developments – Impact of COVID-19 pandemic and the Group's main countermeasures*". Any of these factors could have a material adverse effect on the Group's financial condition, business and results of operation. In addition, any future occurrence of severe natural disasters in China or elsewhere may adversely affect PRC's economy or the global economy and in turn the Bank's business. There is no guarantee that any future occurrence of natural disasters or outbreak of any avian influenza, SARS, MERS, Ebola virus, H1N1 Flu, COVID-19 or other epidemics, or the measures taken by the PRC government or other countries in response to such future outbreak of epidemics, will not seriously interrupt the Bank's operations or those of the Bank's customers, which may have an adverse effect on the Bank's business, financial condition and results of operations.

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 other domestic commercial banks and financial institutions, as well as foreign-invested financial institutions. These commercial banks and financial institutions compete with the Bank for substantially the same loans, deposits and fees from customers.

Following the removal of regulatory restrictions on their geographical presence, customer base and operating licence in China in December 2006 as part of China's WTO accession commitments, the Bank has experienced increased challenges from foreign-invested commercial banks. Furthermore, the "Mainland and Hong Kong Closer Economic Partnership Arrangement", which permits smaller Hong Kong banks to operate in China, the rapid development of new competitors such as Alipay and WeChat Pay, and the emergence of new technologies such as new digital currencies in the PRC have also increased the competition in China's banking industry.

The increased competitive pressures resulting from the above and other factors may adversely affect the Bank's business and prospects, as well as the Bank's business, 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 portfolio or deposit base 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;
- reducing the Bank's asset quality; and
- increasing the turnover of senior management and qualified professional personnel.

The Bank may not always be able to maintain its competitive advantage or successfully compete in all the business areas in which it currently operates or intends to operate in the future. The adverse developments described above may negatively affect the Bank's ability to service the Bonds and to satisfy its other obligations under the Bonds.

The Bank may also face competition for funds from other forms of investment alternatives as the PRC capital market continues to develop. For example, as the PRC capital market continues to develop and become a more viable and attractive investment alternative, the Bank's deposit customers may elect to transfer their funds into bonds, equities and other capital market instruments, which may reduce the Bank's deposit base and adversely affect the Bank's business, financial condition and results of operations. This may negatively affect the Bank's ability to service the Bonds and to satisfy its other obligations under the Bonds.

The Bank's business is inherently subject to market fluctuations and general economic conditions, particularly in the PRC

The Bank's business is inherently subject to global capital market fluctuations and general economic conditions. Global market factors and the volatility and strength of the capital markets all affect the business and economic environment and, ultimately, the Bank's business. In particular, uncertain economic conditions, volatility and disruptions in global capital markets, such as those that occurred in late 2008 and 2009 during the global financial crisis, can have a material adverse effect on the Bank. The economic recovery since the global financial crisis has been slow, with economic growth rates in major economies remaining persistently lower than pre-crisis levels, due to issues including the ongoing COVID-19 outbreak, the escalating tensions between the PRC and the United States, the ongoing concerns about European sovereign debt levels and the prolonged period of uncertainty around Brexit. Please also refer to "*Risk Factors – Risks Relating to the Bank's Business – Uncertainties and instability in global market conditions could adversely affect the Bank's business, financial condition and results of operations*".

Furthermore, uncertainties in the global and the PRC's economies may also adversely affect the Bank's business, financial condition and results of operations in many ways, including, among others:

- during a period of economic slowdown, there is a greater likelihood that more of the customers or counterparties could become delinquent in respect of their loan repayments or other obligations to the Bank, which, in turn, could result in a higher level of NPLs, allowances for impairment losses and write-offs;

- the increased regulation and supervision by the financial services industry in response to the financial crisis in certain jurisdictions where the Bank operates may restrict its business flexibility and increase its compliance costs;

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

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

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

Any potential market and economic downturns, economic slowdown or geopolitical uncertainties in the PRC, its neighbouring countries or regions or the rest of the world may exacerbate the risks relating to the PRC capital markets. In addition, global economic uncertainty and the slowdown in PRC economic growth have precipitated, and may continue to raise the possibility of, fiscal, monetary, regulatory and other governmental actions. It cannot be predicted whether or when such actions may occur, nor can it be predicted what ultimate impact, if any, such actions or any other governmental actions could have on the Bank's business, results of operations and financial condition. There can be no assurance that the PRC's economy or the global economy will continue to improve or maintain sustainable growth. If further economic downturn occurs or continues, the Bank's business, financial condition and results of operations could be materially and adversely affected.

The Bank's businesses are highly regulated which may be adversely affected by future regulatory changes

The Bank's business and operations are directly affected by changes in the PRC's policies, laws and regulations relating to the banking industry, such as those affecting the extent to which the Bank can engage in specific businesses as well as changes in other governmental policies. There can be no assurance that the policies, laws and regulations governing the banking industry will not change in the future or that any such changes will not adversely affect the Bank's business, financial condition and result of operations nor can the Bank assure investors that it will be able to adapt to all such changes on a timely basis. For example, in recent years, the PRC government has announced a number of supply-side structural reforms, including the reforms to improve the corporate governance of SMEs to reduce systemic financial risks and credit risk and to increase lending activities to SMEs while effectively controlling risks, to achieve a healthy economic growth.

The Bank has participated in such supply-side structural reforms, including the development of Guangdong-Hong Kong-Macau Greater Bay Area and Free Trade Zones, SMEs financing and debt-to-equity swap reforms. In addition, the Bank may be entrusted to administer banking business. For example, on 24 May 2019, the Bank announced that it has accepted the entrustment of Baoshang Bank to take its business into custody. Under the custodian period of one year, the Bank had assisted Baoshang Bank in the reform of its corporate governance and risk management and in its business operations. There is no assurance that the policies implemented by the PRC regulators and the Bank's participation in them will not affect the Bank's business, financial condition and result of operations or that the Bank will be able to make proper adjustment(s) to its business operations according to the changes in the financial regulatory policies, monetary policies and structural-side reforms.

In addition, there may be uncertainties regarding the interpretation and application of new policies, laws and regulations, which may result in penalties and restrictions on the Bank's activities and could also have a significant impact on the Bank's business. The adverse developments described above may negatively affect the Bank's ability to service the Bonds and to satisfy its other obligations under the Bonds.

The growth rate 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 improvement, demographic changes and the opening of the PRC banking market to foreign participants. However, the prospective impact on the PRC banking industry of certain trends and events, such as the pace of economic growth in the PRC and the ongoing reform of the social welfare system is currently not clear. Consequently, it cannot be assured that the growth and development of the PRC banking market will be sustainable.

Fluctuations in interest rates may adversely affect the Bank's lending business and its financial condition

As with most commercial banks, the Bank's results of operations depend to a great extent on the Bank's net interest income. For the year ended 31 December 2020, net interest income represented 80.63 per cent. of the Group's operating income. For the six months ended 30 June 2021, net interest income represented 77.73 per cent. of the Group's operating income. Fluctuations in interest rates could affect the Bank's financial condition and profitability in different ways. For example, a decrease in interest rates may reduce the Bank's interest income and yields from interest-earning assets. An increase in interest rates may decrease the value of the Bank's investment in debt securities portfolio and raise the Bank's 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. Fluctuations in interest rate will also affect the market value of and return on derivative financial instruments and may result in a gap between the Bank's interest rate sensitive assets and interest rate sensitive liabilities.

Interest rate spread may also be affected by the PBOC's reserve requirement ratio for commercial banks. The reserve requirement refers to the amount of funds that banks must hold in reserve against deposits made by their customers. The PBOC may further adjust the reserve requirement ratio or revise its calculation basis in the future. Increases in the bank reserve requirement ratio or expansion of the calculation basis of the reserve requirement may negatively impact the amount of funds available for loans to businesses by the Bank and other commercial banks in China and therefore may adversely affect the Bank's ability to earn interest income, which in turn may negatively affect the Bank's ability to service the Bonds and to satisfy its other obligations under the Bonds.

In addition, increasing competition in the banking industry and further deregulation of interest rates by the PBOC may result in higher fluctuations in market interest rates. If the interest rates the Bank pays for its deposits increase to a greater extent than the interest rates it receives for its loans, the Bank's net interest margin will narrow, leading to a reduction in its 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 lending operations, financial condition and results of operations, which in turn may negatively affect the Bank's ability to service the Bonds and to satisfy its other obligations under the Bonds.

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

As a result of the PRC regulatory restrictions, substantially all of the Renminbi-denominated investment assets of PRC commercial banks are concentrated in the limited types of investments permitted by the PRC government. These permitted investments include PRC treasury bonds, financial debt securities issued by PRC policy banks, notes issued by PBOC, and subordinated bonds. These restrictions on the Bank's ability to diversify its investment portfolio limit its ability to seek an optimal return. The restrictions also expose the Bank to significantly greater risk of investment loss in the event a particular type of investment the Bank holds suffers a decrease in value. For example, a general increase in interest rates may result in a significant decline in the value of the fixed income debt securities held by the Bank. In addition, due to the limited availability of hedging tools, the Bank's ability to manage market and credit risks relating to Renminbi-denominated assets is limited, and any resulting decline in the value of its Renminbi-denominated assets will adversely affect the Bank's financial condition and results of operations. This may negatively affect the Bank's ability to service the Bonds and to satisfy its other obligations under the Bonds.

The Bank's results of operations may be adversely affected if the PBOC further expedites the deregulation 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 RMB-denominated loans and the minimum interest rate for RMB-denominated deposits. In June 2012, PBOC lowered the one-year Renminbi benchmark deposit and loan interest rates each by 0.25 percentage point At the same time, the PBOC also adjusted the upper limit of the floating range for deposit interest rates and the lower limit of the floating range for loan interest rates.

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 RMB-denominated residential mortgage loans below 70 per cent. of the relevant PBOC benchmark rate (since 27 October 2008), restrictions on the loan interest rates were fully liberalised. According to existing PBOC regulations, RMB-denominated deposits in commercial banks in China remain subject to restrictions and the interest rate for RMB-denominated deposits cannot be set above 110 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 2015, the PBOC made consecutive interest rates cuts and removed the deposit interest rate ceiling, giving rise to greater competitions among banks and general shrinking of returns in the bond and monetary markets. On 17 August 2019, the PBOC issued Bulletin [2019] No. 15, reforming and improving the loan prime rate calculation mechanism, further liberalising the interest rate system. The PBOC may further liberalise the existing interest rate restrictions on RMB-denominated loans and deposits. If the existing regulations are substantially liberalised or eliminated, competition in China's banking industry will likely intensify as China's commercial banks seek to offer more attractive interest rates to customers. Further adjustments by the PBOC to the benchmark interest rates or liberalisation by the PBOC may result in the narrowing of the spread in the average interest rates between RMB-denominated loans and RMB-denominated deposits, thereby adversely affecting the Bank's business, financial condition and results of operations, which in turn may negatively affect the Bank's ability to service the Bonds and to satisfy its other obligations under the Bonds.

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 in operation since January 2006. However, as the information infrastructure in China is still under development and there remains limitations on the availability of information, national credit information databases are generally under-developed and are not able to provide complete credit information on many of the 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, and the Bank's ability to effectively manage the Bank's credit risk may be adversely affected. This may negatively affect the Bank's ability to service the Bonds and to satisfy its other obligations under the Bonds.

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

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, Hong Kong branch of the Bank, CCB Asia and other licenced institutions of the Bank in Hong Kong (a "**FIRO Group Entity**"). The resolution regime seeks to provide the relevant resolution authorities with administrative powers to bring about timely and orderly resolution in order to stabilise and secure continuity for a failing authorised institution or within scope financial institution in Hong Kong. In particular, in the context of a resolution of any FIRO Group Entity, the relevant resolution authority will have the ability to resolve other entities within the Bank as if they were themselves a within scope financial institution for the purposes of FIRO and take certain actions and make certain directions in relation to such entities. Any such actions could potentially affect contractual and property rights relating to the Bank. In addition, the relevant resolution authority is provided with powers to affect contractual and property rights as well as payments (including in respect of any priority of payment) that creditors would receive in resolution. The implementation of FIRO remains untested and certain details relating to FIRO will be set out through secondary legislation and supporting rules. Therefore, the Bank is unable to assess the full impact of FIRO on the financial system generally, the Bank's counterparties, the Bank, any of its consolidated subsidiaries or other Group entities, the Bank's operations and/or its financial position.

Certain facts and statistics and information relating to the Bank and the Group are derived from publications not independently verified by the Bank, the Managers or any of their respective directors, employees, representatives, affiliates or advisers

Certain facts and statistics in this Offering Circular relating to the PRC, its economy and its banking industry are derived from various official and publicly available sources generally believed to be reliable. While the Bank has taken reasonable care to ensure that the facts and statistics or information relating to the Bank and the Group presented are accurately extracted from such sources, such facts, statistics and information have not been independently verified by the Bank, the Managers or any of their respective directors, employees, representatives, affiliates or advisers and, therefore, none of them makes any representation as to the accuracy of such facts and statistics or information, 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 or other reasons, 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.

RISKS RELATING TO THE PRC

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

A substantial majority of the Bank's businesses, assets and operations are 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. The PRC economy differs from the economies of most developed countries in many respects, including with respect to government involvement, level of development, economic growth rate, economic and political structure, control of foreign exchange, regulation of capital investment and allocation of resources. The PRC economy has been transitioning from a planned economy to a more market-oriented economy. In recent years, the PRC government has implemented a series of measures emphasising market forces for economic reform, the reduction of state ownership of productive assets and the establishment of sound corporate governance in business enterprises. However, there can be no assurance that the PRC government will continue to pursue economic reforms or that any such reforms will not have a material adverse effect on the Group's business. In addition, a large portion of productive assets in China remain owned by the PRC government. The PRC government retains the power to implement macroeconomic policies affecting the PRC economy and continues to play a significant role in regulating industrial development, allocating resources, setting monetary policy, implementing measures on production, pricing, management and taxation and providing preferential treatment to particular industries or companies. These measures are aimed at benefiting the overall economy of the PRC, but some of the measures may have negative effects 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 the interpretation of, and application of, applicable tax regulations.

Interpretation of PRC laws and regulations may involve uncertainty

The Bank is organised under the laws of the PRC. The PRC legal system is based on written statutes. Since 1979, the PRC government has promulgated laws and regulations dealing with economic matters, such as foreign investment, corporate organisation and governance, commerce, taxation and trade, with a view towards developing a comprehensive system of commercial law. However, as many of these laws and regulations are relatively new and continue to evolve, these laws and regulations may be subject to different interpretation and inconsistently enforced. In addition, there is a limited volume of published court decisions. Although such court decisions may be cited for reference, they are not binding on subsequent cases and have limited precedential value unless the Supreme People's Court otherwise provides interpretations. 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 and the Bondholders.

Bondholders may experience difficulties in effecting service of legal process and enforcing judgments against the Bank and its directors and officers

The Bank is a company incorporated under the laws of the PRC, and substantially all of its assets and its subsidiaries are located in the PRC. In addition, most of the Bank's directors and officers reside within the PRC, and the assets of its directors and officers may be located within the PRC. As a result, it may be difficult to effect service of process outside of the PRC upon most of the Bank's directors and officers and for the Bondholders to effect service of process against the Bank's assets or its directors and officers in the PRC in order to seek recognition and enforcement for foreign judgments in the PRC.

The recognition and enforcement of foreign judgments are provided for under the PRC Civil Procedures Law. PRC courts may recognise and enforce foreign judgments in accordance with the requirements of the PRC Civil Procedures Law and other applicable laws and regulations based either on treaties between China and the country where the judgment is made or on principles of reciprocity between jurisdictions. The PRC has not entered into treaties or arrangements providing for the recognition and enforcement of judgments made by courts of the United States, the United Kingdom, Japan or most other Western countries. In addition, according to the PRC Civil Procedures Law, courts in the PRC will not enforce a foreign judgment against the Bank or its directors and officers if they decide that the judgment violates the basic principles of PRC law or national sovereignty, security or public interest. Hence, it is uncertain whether and on what basis a PRC court would enforce a judgment rendered by a court in any of these jurisdictions.

The Bank is affected by the PRC government's restrictions on currency conversion and future fluctuations in exchange rates

The Bank receives a substantial majority of its revenues in RMB, which is currently not a freely convertible currency. A portion of these revenues must be converted into other currencies in order to meet the Bank's demands for foreign currencies.

The exchange rates of the RMB against the U.S. dollar and other currencies are in constant fluctuation and influenced by, among other things, the changes in Chinese and international political and economic conditions. Since 1994, China had implemented a single and managed floating exchange rate regime based on market supply and demand to determine the exchange rate of RMB with reference to the exchange rate determined by the PBOC based on the interbank exchange rates and the prevailing rate of the international financial market on the previous business day. On 21 July 2005, the PRC government adopted a more flexible market-based and managed floating exchange rate regime with reference to a basket of currencies. Under the new system, the exchange rate of RMB was allowed to fluctuate within a regulated band. In addition, a market maker system was introduced to the interbank spot foreign exchange market. In July 2008, China continued to deepen its exchange rate regime reform to implement a managed floating exchange rate system based on market supply and demand. Given the domestic and overseas economic developments, in June 2010, the PBOC decided to proceed further with reform of the RMB exchange rate regime, improve the flexibility of the RMB exchange rate and widen the daily trading band for the U.S.$/RMB exchange rate in April 2012 and in March 2014. In 2017, the RMB depreciated as against the U.S. dollar and continued to fluctuate in 2018 and early 2019. Against the backdrop of uncertain trade and global economy, the PBOC authorised the China Foreign Exchange Trade System and National Interbank Funding Centre on 8 August 2019 to publish the central parity rate of the RMB as against the U.S. dollar in the interbank exchange market, which was U.S.$1.00 to RMB7.0039. That was the first time the value of the RMB as against the U.S. dollar fell below RMB7.00 per U.S. dollar since 2008. The PRC government may in the future implement other exchange rate reforms.

The Bank is also currently required to obtain the approval of SAFE before converting significant sums of foreign currencies into RMB. All of these factors could adversely affect the Bank's business, financial condition, results of operations and compliance with capital adequacy ratios and operational ratios, which in turn may negatively affect the Bank's ability to service the Bonds and to satisfy its other obligations under the Bonds.

RISKS RELATING TO THE BONDS

The Bonds are unsecured obligations

As the Bonds are unsecured obligations of the Issuer, their repayment may be compromised if:

- the Issuer enters into bankruptcy, liquidation, re-organisation or other winding-up proceedings;
- there is a default in payment under the Issuer's secured indebtedness or other unsecured indebtedness; or
- there is an acceleration of any of the Issuer's indebtedness.

If any of these events were to occur, the Issuer's assets and any amounts received from the sale of such assets may not be sufficient to pay amounts due on the Bonds.

The Bonds may not be a suitable investment for all investors

Each potential investor in the Bonds must determine the suitability of the 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 Bonds, the merits and risks of investing in the Bonds 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 Bonds 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 Bonds, including where the currency for principal or interest payments is different from the potential investor's currency;
- understand thoroughly the terms of the Bonds and be familiar with the behaviour of any relevant indices and financial markets;
- 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; and
- have sufficient knowledge and expertise (either alone or with a financial adviser) to evaluate the effect or the likelihood of the occurrence of a Non-Viability Triggering Event (as defined in the Terms and Conditions of the Bonds) for the Bonds which features loss absorption.

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

The Bonds contain non-viability loss absorption provisions which if triggered would result in the principal amount in respect of the Bonds being Written-off and the related accrued but unpaid interest ceasing to be payable and enforceable

In compliance with the requirements proposed by the Basel Committee of Banking Supervision (the "**Basel Committee**") to the regulatory capital framework for internationally active banks which are designed, in part, to ensure that capital instruments issued by such banks fully absorb losses before tax payers are exposed to loss (the "**Basel III Reforms**"), the Bonds contain loss-absorption provisions which require the Bonds to be Written-off (as defined in the Terms and Conditions of the Bonds) upon the occurrence of a Non-Viability Triggering Event as determined by the CBIRC. Under the Terms and Conditions of the Bonds, if a Non-Viability Triggering Event occurs, the Issuer has the right (without any requirement for the consent of the Bondholders) to irrevocably Write-off (in whole or in part) the principal amount of the Bonds then outstanding. A "Non-Viability Triggering Event" means the occurrence of the earlier of either:

(a) the CBIRC having decided that a Write-off is necessary, without which the Issuer would become non-viable; or

(b) any relevant authority having decided that a public sector injection of capital or equivalent support is necessary, without which the Issuer would become non-viable.

Once the principal amount of the Bonds (in whole or in part) have been Written-off, such relevant portion of the Bonds will not be restored or become payable again (whether in whole or in part) in any circumstances (including where the relevant Non-Viability Triggering Event ceases to continue), and any accrued but unpaid interest in respect of such relevant portion of the Bonds shall cease to be payable or enforceable. In addition, there will be no compensation in any form to remedy the loss of the Bondholders.

As at the date of this Offering Circular, to the Issuer's knowledge, pursuant to Paragraph 2(1) of the 2019 Guiding Opinions, the relevant authorities regarding paragraph (b) in the definition above or in case of a partial Write-off are those which may determine whether a public sector injection of capital or equivalent support is necessary, which include the State Council, MOF, PBOC and the CBIRC. In making such determination (regarding paragraph (b) in the definition above or in the case of a partial Write-off), the relevant authorities may consult each other and/or seek joint agreement among themselves. The CBIRC Capital Regulations and the 2019 Guiding Opinions will be subject to interpretation and application by the CBIRC and the relevant authorities.

Although the Terms and Conditions of the Bonds allow for partial Write-off, there is inherent uncertainty regarding how much the Bank's regulatory capital needs to be cancelled or converted at the point of non-viability in order for such event to cease if such regulatory capital instrument does not need to be fully cancelled or converted. The amount to be Written-off will be subject to the then laws and regulations and the interpretation and application by the CBIRC and the relevant authorities of such laws and regulations and notwithstanding the provision of partial write-off in the Terms and Conditions of the Bonds, there can be no assurance that the Bondholders will not lose all of their investment in the Bonds when a Non-Viability Triggering Event occurs.

If a Write-off occurs at such time as the Bonds are represented by the Global Bond Certificate, such Write-off will be reflected as a reduction in the aggregate principal amount of the Bonds as represented by such Global Bond Certificate by the total amount to be Written-off. In the event of a Write-off in part only, following the reduction in the aggregate principal amount of the Bonds as represented by such Global Bond Certificate, unless the Bank determines otherwise (acting in good faith and having regard to the rules and procedures of Euroclear or Clearstream or any Alternative Clearing System, as the case may be), the principal amount of the Bonds held by each Bondholder will correspondingly be reduced on a *pro rata* basis to the extent practicable, and any excess nominal amount held thereafter by a Bondholder that is not wholly divisible by the Calculation Amount (as defined in the Terms and Conditions of the Bonds) for the purposes of voting rights shall be disregarded.

Although the Bank has agreed to notify the clearing systems and the Bondholders following the occurrence of a Non-Viability Triggering Event, there will be a delay between a Non-Viability Triggering Event or the Write-off and the time that the clearing systems and the Bondholders via the clearing systems are notified of the occurrence of the relevant event through their clearing systems accounts or otherwise. Such delay may exceed several days during which trading and settlement in the Bonds may continue. Any such delay will not change or delay the effect of a Non-Viability Triggering Event or the Write-off. See "*Terms and Conditions of the Bonds – Subordination and Non-Viability Triggering Event – Write off on a Non-Viability Triggering Event*".

The occurrence of a Non-Viability Triggering Event may be inherently unpredictable and may depend on a number of factors which may be outside of the Bank's control

The occurrence of a Non-Viability Triggering Event is dependent on the determination by the CBIRC of the non-viability of the Bank. Because of the inherent uncertainty regarding the determination of whether a Non-Viability Triggering Event exists, it will be difficult to predict when, if at all, a Write-off will occur. Accordingly, trading behaviour in respect of the Bonds, which have the non-viability loss absorption feature, is not necessarily expected to follow trading behaviour associated with other types of securities. Any indication that the Bank is trending towards a Non-Viability Triggering Event could have an adverse effect on the market price of the Bonds. Potential investors should consider the risk that as a holder of the Bonds, with a non-viability loss absorption feature, it may lose all of its investment in the Bonds, including the principal amount plus any accrued but unpaid interest.

Regulations on non-viability loss absorption are new and subject to interpretation and application by the relevant authorities in the PRC

The regulations on non-viability loss absorption are new, and will be subject to the interpretation and application by the relevant authorities in the PRC. It is uncertain how the relevant authorities would determine the occurrence of a Non-Viability Triggering Event and the amount to be Written-off, and it is possible that the grounds that constitute Non-Viability Triggering Events or factors to be taken into account to determine how much to be Written-off may change (including that additional grounds or factors are introduced).

Other regulatory capital instruments may not be subject to a Write-off

The Terms and Conditions of the Bonds provide that the principal amount of the Bonds shall be Written-off (in whole or in part):

(i) following the cancellation or conversion, in accordance with the terms thereof or any applicable laws and regulations, in full of the principal amount of all Additional Tier 1 Capital Instruments (and all relevant accrued but unpaid amounts shall cease to be payable or enforceable); and

(ii) concurrently with the cancellation or conversion, in accordance with the terms thereof or any applicable laws and regulations, of the principal amount of all other Tier 2 Capital Instruments (and all relevant accrued but unpaid amounts shall cease to be payable or enforceable). If the Bonds are to be Written-off in part only, the principal amount of the Bonds to be Written-off shall be calculated based on the proportion that the outstanding aggregate principal amount of the Bonds bears to the total outstanding aggregate principal amount of all Tier 2 Capital Instruments with the same triggering event (including the Bonds).

However, the terms and conditions of other regulatory capital instruments issued by the Bank and its subsidiaries prior to 1 January 2013 may differ as these instruments would not typically have any conversion or write-off features. In case of the occurrence of a Non-Viability Triggering Event prior to the maturity of such pre-2013 regulatory capital instrument issued by the Bank, such pre-2013 regulatory capital instruments may not be converted into equity or be written-off even if the Bonds are required to be Written-off.

The provisions on available resources in the CBIRC Capital Regulations are subject to interpretation by the relevant regulatory authorities and the application of relevant laws, rules and regulations

Pursuant to the Terms and Conditions of the Bonds, the Issuer has undertaken to pay interest on the Bonds semi-annually in arrear at the relevant Interest Rate (as defined in the Terms and Conditions of the Bonds) applicable from time to time. However, any payment of interest on the Bonds will be subject to the prevailing regulatory requirements of the relevant regulatory authorities in effect at the time of such payment. All payments of interest shall be made from the available resources of the Issuer.

The CBIRC Capital Regulations provide that in relation to Core Tier 1 Capital Instruments, Additional Tier 1 Capital Instruments and Tier 2 Capital Instruments, payment of distribution, dividend or interest shall be made from available resources. While investors may be aware of the aforementioned provision in the CBIRC Capital Regulations which apply to Core Tier 1 Capital Instruments and Additional Tier 1 Capital Instruments issued in the PRC or outside the PRC, investors should note that the rules and regulations of the PRC and accounting standards do not define what constitutes available resources in the context of Tier 2 Capital Instruments. Moreover, there is no equivalent requirement under the Basel III Reforms that requires the payment of interest in respect of Tier 2 Capital Instruments to be made from available resources.

Consequently, there is some uncertainty as to: (1) what constitutes available resources of an issuer of Tier 2 Capital Instruments, (2) what circumstances would result in an issuer having insufficient or no available resources, and (3) in the case of insufficient or no available resources, the consequence on any payment of interest and whether, in such event, the CBIRC would require the payment of interest to be suspended temporarily, cancelled permanently or deferred. In the event that the CBIRC determines that the Bank has insufficient available resources to make any payment of interest under the Bonds, there is a risk that an investor in the Bonds may lose all or some of the interests due under the Bonds.

The Issuer's obligations under the Bonds are subordinated and there are limited remedies for non-payment under the Bonds

The Bonds will constitute direct, unsecured and subordinated obligations of the Issuer which rank *pari passu* and without any preference among themselves.

The claims of the Bondholders for payment of principal and any interest under the Bonds shall, in the event of the Cessation of Business, Bankruptcy or Winding-Up of the Issuer, be subordinated to the claims of depositors or general creditors of the Issuer; rank in priority to the claims of all holders of equity capital, Additional Tier 1 Capital Instruments and hybrid capital bonds of the Issuer that rank junior to the Bonds; and rank *pari passu* with the claims under any other Tier 2 Capital Instruments. The Bondholders shall not have any right to accelerate any payment of principal or interest under the Bonds other than upon any Cessation of Business, Bankruptcy or Winding-Up of the Issuer.

In the event of a shortfall of funds on a Cessation of Business, Bankruptcy or Winding-Up of the Issuer, there is a real risk that an investor in the Bonds will lose all or some of its investment and will not receive a full return of the principal amount or any unpaid amounts due under the Bonds.

Under the PRC laws and regulations, the prior approval of the CBIRC would need to be obtained in order for a Cessation of Business, Bankruptcy or Winding-Up of a Chinese bank to proceed.

The Issuer may, in its sole discretion, elect to redeem the Bonds early upon the Call Date or upon the occurrence of a Regulatory Redemption Event

The issuance of the Bonds and the Write-off provisions have been approved at the first extraordinary general meeting of 2020 of the Issuer. As approved by the CBIRC, the Issuer may conduct the issuance of the Bonds and the proceeds of the offering of the Bonds will be recognised as Tier 2 Capital of the Issuer in accordance with the applicable laws and regulations. The Terms and Conditions of the Bonds are in compliance with the eligibility criteria of Tier 2 capital instruments as set out in the CBIRC Capital Regulations and so long as the Bonds remain outstanding, the Bonds are required to comply with all the applicable requirements of the relevant regulatory policies of the relevant authorities, as such requirements may be adjusted from time to time. The Bonds may be redeemed early on the Call Date, subject to the prior consent of the CBIRC having been obtained and the satisfaction of other conditions described under "*Terms and Conditions of the Bonds – Redemption, Substitution, Variation and Purchase – Redemption at the Option of the Issuer*", in the Issuer's sole discretion, in whole but not in part. The Issuer may be expected to exercise its right to redeem the Bonds on the Call Date when its cost of alternative borrowing is lower than the interest rate on the Bonds. In addition, subject to any applicable regulatory requirements, the satisfaction of other conditions described under "*Terms and Conditions of the Bonds – Redemption, Substitution, Variation and Purchase – Redemption for Regulatory Reasons*", and prior written consent of the CBIRC having been obtained, the Issuer may at its option, redeem the Bonds early in whole but not in part upon the occurrence of a Regulatory Redemption Event. The Bonds may not be repurchased or redeemed by the Issuer at the option of the holder.

There is no requirement to redeem the Bonds or any other capital instruments of the Issuer and its subsidiaries on a *pro rata* basis upon the occurrence of any event giving the Issuer the right to redeem the Bonds early. Also, upon the occurrence of any event giving the Issuer the right to redeem the Bonds early, the Issuer or its subsidiaries, as applicable, may, instead of redeeming the Bonds, choose to redeem other outstanding capital instruments if the terms of those capital instruments so provide.

Variation or substitution of the Bonds without Bondholder consent

In certain instances, the Issuer could substitute or vary the terms of the Bonds and holders may be bound by certain other amendments to the Bonds to which they did not consent.

Under the "*Terms and Conditions of the Bonds – Redemption, Substitution, Variation and Purchase – Substitution or Variation*", the Issuer has the option, subject to the prior written consent of the CBIRC but without any requirement for any consent of the Bondholders, to substitute all but not some only of the Bonds for, or vary the terms of the Bonds so that they remain or, as appropriate, become, Qualifying Tier 2 Capital Instruments, as described under "*Terms and Conditions of the Bonds – Redemption, Substitution, Variation and Purchase – Substitution or Variation*". While the Issuer cannot so substitute the Bonds for securities that have, or so vary the terms of the Bonds so that they have, economic terms materially less favourable to a holder than the terms of the Bonds, no assurance can be given as to whether any such substitution or variation will negatively affect any particular holder. In addition, the tax and stamp duty consequences of holding such substituted or varied Bonds could be different for some categories of holders from the tax and stamp duty consequences for them of holding the Bonds.

The ratings of the Bonds may be downgraded or withdrawn

The Bonds are expected to be rated "BBB+" by S&P and "BBB+" by Fitch. The ratings represent the opinions of the rating agencies and their assessment of the ability of the Bank to perform its obligations under the Bonds and credit risks in determining the likelihood that payments will be made when due under the Bonds. A rating is not a recommendation to buy, sell or hold securities. The ratings can be downgraded or withdrawn, and a reduction or withdrawal of the ratings may affect the market price of the Bonds. The Bank is not obliged to inform the holders of the Bonds if the ratings are downgraded or withdrawn.

An active trading market for the Bonds may not develop

The Bonds are a new issue of securities for which there is currently no trading market. Application will be made to the Hong Kong Stock Exchange for the listing or, and permission to deal in, the Bonds on the Hong Kong Stock Exchange. No assurance can be given that such application will be approved, or even if the Bonds become so listed, an active trading market for the Bonds will develop or as to the liquidity or sustainability of any such market, the ability of holders to sell their Bonds or the price at which holders will be able to sell their Bonds. Furthermore, it is possible that only a limited number of investors may subscribe for a significant proportion of the Bonds. If this is the case, liquidity of trading in the Bonds may be constrained in the secondary market.

Therefore, there can be no assurance that an active trading market for the Bonds and the liquidity of the trading in the Bonds will be developed. Even if such trading market is developed, there are a number of factors such as the prevailing interest rate, the Group's result of operations and other similar securities in the market, may affect the market price of the Bonds which may be higher or lower than the initial issue price of the Bonds.

Developments in other markets may adversely affect the market price of the Bonds

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

The liquidity and price of the Bonds following the offering may be volatile

The price and trading volume of the Bonds may be highly volatile. Factors such as variations in the Bank's turnover, earnings and cash flows, proposals for new investments, strategic alliances and/or acquisitions, changes in interest rates, fluctuations in price for comparable entities, changes in government regulations and changes thereof applicable to the banking industry and general economic conditions nationally or internationally could cause the price of the Bonds to change. Any such developments may result in large and sudden changes in the trading volume and price of the Bonds. There is no assurance that these developments will not occur in the future.

Investment in the Bonds 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 and by many other factors. In August 2015, the PBOC implemented changes to the way it calculates the midpoint against the U.S. dollar to take into account market-maker quotes before announcing the daily midpoint. This change, among others that may be implemented, may increase the volatility in the value of the Renminbi against other currencies. The Bank will make all payments of interest and principal with respect to the Bonds in U.S. dollars. As a result, the value of these U.S. dollar payments in other applicable foreign currency terms may vary with the prevailing exchange rates in the marketplace. If the value of the U.S. dollar depreciates against such foreign currency between then and when the Bank pays back the principal of the Bonds in U.S. dollars at maturity, the value of investment in such foreign currency terms will have declined.

The interest rate on the Bonds will be reset on the Reset Date, which may affect the market value of the Bonds

The Bonds will initially bear interest at the fixed rate of 2.85 per cent. per annum to, but excluding, the Reset Date (as defined in the Terms and Conditions of the Bonds). However, from and including the Reset Date to, but excluding, the Maturity Date (as defined in the Terms and Conditions of the Bonds), the interest rate will be reset to a rate per annum which will be equal to the sum of the Benchmark Rate (as defined in the Terms and Conditions of the Bonds) with respect to the Reset Date plus 1.40 per cent. This reset rate could be less than the initial fixed rate and could therefore adversely affect the market value of an investment in the Bonds.

Additional procedures may be required to be taken to bring English law governed matters or disputes to the Hong Kong courts. There is also no established practice in the PRC courts for the recognition and enforcement of judgments of the Hong Kong courts in respect of English law governed matters or disputes

The Bonds, the Deed of Covenant and the Agency Agreement are governed by English law (other than the provisions of the Terms and Conditions of the Bonds relating to subordination, which shall be governed by PRC 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 or disputes, Hong Kong courts may require certain additional procedures to be taken. Although under the "Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements between Parties Concerned", judgments of Hong Kong courts should be recognised and enforced by the PRC courts where the contracting parties to the transactions pertaining to such judgments have agreed to submit to the exclusive jurisdiction of Hong Kong courts; the PRC courts could, albeit in limited circumstances, refuse to recognise and enforce a Hong Kong court judgment on the ground of the social and public interest of the PRC. While it is expected that the PRC courts will recognise and enforce a judgment given by Hong Kong courts in relation to documents governed by English law, there is no established practice in this area yet.

Fluctuations in interest rates may have an adverse effect on the market price of the Bonds

The Bondholders may suffer unforeseen losses due to the fluctuations in interest rates. Generally, a rise in interest rates causes a fall in the prices of the Bonds, resulting in a capital loss for the Bondholders. However, the Bondholders may reinvest the interest payments at higher prevailing market interest rates. Conversely, when interest rates fall, the price of the Bonds rises, resulting in a capital gain for the Bondholders. However, the Bondholders may reinvest the interest payments at lower prevailing market interest rates.

As the Bonds will bear a fixed interest rate in respect of the period from, and including, the Issue Date, to but excluding, the Reset Date and in respect of the period from, and including, the Reset Date, to but excluding, the Maturity Date, respectively, the market price of the Bonds will consequently vary with the fluctuations in interest rates. If the Bondholders propose to sell their Bonds before their maturity, they may receive an offer lower than the amount they have invested.

Legal investment considerations may restrict certain investments

Certain investors' investment activities are subject to restrictions as stipulated in relevant investment laws and regulations, or review or regulation by relevant authorities. Each potential investor should consult its legal advisers to determine whether and under what circumstances (i) the Bonds are legal investment, (ii) the Bonds can be used as collateral for various types of borrowings, and (iii) any other restrictions are placed on the purchase or pledge of the Bonds. Investors should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Bonds under any applicable venture capital or similar rules.

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

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

Gains on the transfer of the Bonds may become subject to income taxes under PRC tax laws and Value-added Tax

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

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

On 23 March 2016, the Ministry of Finance and the State Administration of Taxation ("**SAT**") issued the Circular of Full Implementation of Business Tax to VAT Reform (Caishui [2016] No. 36) ("**Circular 36**"). According to the Tentative Regulations on the Value-added Tax of the PRC which was introduced by the State Council on 10 November 2008 and amended by the State Council on 19 November 2017 and the Circular 36, the entities and individuals providing the services within China shall be subject to VAT. The Bank shall in respect of the VAT pay additional amounts to the investors of the Bonds in accordance with the Terms and Conditions of the Bonds so that the Bondholders receive the full amount of the scheduled payment, as further set out in the Terms and Conditions of the Bonds.

VAT is unlikely to be applicable to any transfer of Bonds between entities or individuals located outside of the PRC and therefore unlikely to be applicable to gains realised upon such transfers of Bonds, but there is uncertainty as to the applicability of VAT if either the seller or buyer of Bonds is located inside the PRC. Circular 36 together with other laws and regulations pertaining to VAT are relatively new. Therefore, the interpretation and enforcement of such laws and regulations involve uncertainties.

Investors shall pay attention to any modification and waivers

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

The Terms and Conditions of the Bonds also provide that the parties to the Agency Agreement may agree to modify any provision thereof, but the Issuer shall only agree to modification which is (i) of a formal, minor or technical nature or is made to correct a manifest error; or (ii) not materially prejudicial to the interests of the Bondholders.

Investors shall be aware of the effect of change of law

The Terms and Conditions of the Bonds relating to subordination are governed by PRC law while any other provisions of the Terms and Conditions of the Bonds, the Deed of Covenant and the Agency Agreement are governed by English law in effect at the date hereof. No assurance can be given as to the impact of any possible judicial decision or change to PRC law and/or English law, or administrative practices after the date of this Offering Circular. In addition, the bankruptcy law of the PRC may be different from the equivalent bankruptcy laws in other jurisdictions with which the Bondholders are familiar.

The Bonds will initially be represented by a Global Bond Certificate and holders of a beneficial interest in a Global Bond Certificate must rely on the procedures of the Clearing Systems

The Bonds will initially be represented by beneficial interests in a Global Bond Certificate. The Global Bond Certificate will be deposited with a common depositary for Euroclear and Clearstream. Except in the circumstances described in the Global Bond Certificate, investors will not be entitled to receive definitive certificates. The relevant Clearing System will maintain records of the beneficial interests in the Global Bond Certificate. While the Bonds are represented by the Global Bond Certificate, investors will be able to trade their beneficial interests only through the Clearing Systems.

While the Bonds are represented by the Global Bond Certificate, the Issuer will discharge its payment obligations under the Bonds by making payments to the relevant Clearing System for distribution to their account holders.

A holder of a beneficial interest in a Global Bond Certificate must rely on the procedures of the relevant Clearing System to receive payments under the Bonds. The Issuer does not have any responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in a Global Bond Certificate.

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

TERMS AND CONDITIONS OF THE BONDS

The following, subject to modification and other than the words in italics, is the text of the terms and conditions of the Bonds which will appear on the reverse of each of the definitive certificates evidencing the Bonds:

The issue of the U.S.$2,000,000,000 2.85 per cent. Tier 2 Dated Capital Bonds due 2032 (the "**Bonds**") by China Construction Bank Corporation (the "**Issuer**") was authorised by a resolution of the board of directors of the Issuer on 22 September 2020 and a resolution of the shareholders of the Issuer on 12 November 2020. The Bonds are constituted by a deed of covenant dated 21 January 2022 (as amended or supplemented from time to time, the "**Deed of Covenant**") entered into by the Issuer.

The Issuer has entered into an agency agreement relating to the Bonds dated 21 January 2022 (as amended from time to time, the "**Agency Agreement**") with China Construction Bank (Asia) Corporation Limited as fiscal agent (the "**Fiscal Agent**"), as paying agent (the "**Paying Agent**"), as calculation agent (the "**Calculation Agent**"), as registrar (the "**Registrar**") and as transfer agent (the "**Transfer Agent**"), and any other agents named in it. Copies of the Agency Agreement and the Deed of Covenant are available for inspection during usual business hours at the specified office of the Fiscal Agent (presently at 20/F, CCB Tower, 3 Connaught Road Central, Central, Hong Kong). "**Agents**" means the Fiscal Agent, the Paying Agent, the Calculation Agent, the Registrar, the Transfer Agent and any other agent or agents appointed from time to time with respect to the Bonds. The Bondholders (as defined below) are deemed to have notice of those provisions applicable to them of the Agency Agreement and the Deed of Covenant.

The net proceeds from the issue of the Bonds will be used to boost the Tier 2 Capital of the Issuer in accordance with the applicable laws and for the purposes approved by the regulatory authorities.

Unless otherwise specified, capitalised terms in these terms and conditions (the "**Conditions**") shall have the meanings given to them in Condition 16.

1. Form, Specified Denomination and Status

(a) ***Form and denomination***

The Bonds are issued in registered form in the specified denomination of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof (each, an "**Authorised Denomination**").

(b) ***Status of Bonds***

The Bonds constitute direct, unsecured and subordinated obligations of the Issuer, ranking *pari passu* without any preference among themselves. The rights and claims of the Bondholders are subordinated as described in Condition 3(a).

*Upon issue, the Bonds will be represented by a global bond certificate (the "**Global Bond Certificate**") registered in the name of a nominee of, and deposited with, a common depositary for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream**"). The Conditions are modified by certain provisions contained in the Global Bond Certificate. See "Summary of Provisions Relating to the Bonds in Global Form".*

Except in the limited circumstances described in the Global Bond Certificate, owners of interests in Bonds represented by the Global Bond Certificate will not be entitled to receive definitive Certificates in respect of their individual holdings of Bonds. The Bonds are not issuable in bearer form.

2. Register, Title and Transfers

(a) ***Register***

The Registrar will maintain a register (the "**Register**") in respect of the Bonds in accordance with the provisions of the Agency Agreement. In these Conditions, the "**holder**" of a Bond means the person in whose name a Bond is registered in the Register (or, in the case of a joint holding, the first named thereof) and "**Bondholder**" shall be construed accordingly. A certificate (each, a "**Certificate**") will be issued to each Bondholder in respect of its registered holding. Each Certificate will be numbered serially with an identifying number which will be recorded in the Register.

(b) ***Title***

The holder of each Bond shall (except as ordered by a court of competent jurisdiction or otherwise required by law) be treated as the absolute owner of such Bond for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Certificate) and no person shall be liable for so treating such holder.

(c) ***Transfers***

Subject to Conditions 2(f) (*Closed periods*) and 2(g) (*Regulations concerning transfers and registration*) below, a Bond may be transferred upon surrender of the relevant Certificate, with the endorsed form of transfer duly completed, at the specified office of the Registrar or the Transfer Agent, together with such evidence as the Registrar or (as the case may be) such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; **provided, however, that** a Bond may not be transferred unless the principal amount of Bond transferred and (where not all of the Bonds held by a holder are being transferred) the principal amount of the balance of Bonds not transferred are Authorised Denominations. Where not all the Bonds represented by the surrendered Certificate are the subject of the transfer, a new Certificate in respect of the balance of the Bonds will be issued to the transferor.

Transfers of interests in the Bonds evidenced by the Global Bond Certificate will be effected in accordance with the rules of the relevant clearing system.

(d) ***Registration and delivery of Certificates***

Within five business days of the surrender of a Certificate in accordance with Condition 2(c) (*Transfers*) above, the Registrar will register the transfer in question and deliver a new Certificate of a like principal amount of the Bonds transferred to each relevant holder at its specified office or (as the case may be) the specified office of the Transfer Agent or (at the request and risk of any such relevant holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant holder. In this paragraph, "**business day**" means a day on which commercial banks are open for general business (including dealings in foreign currencies) in the city where the Registrar or (as the case may be) the relevant Transfer Agent has its specified office.

(e) ***No charge***

The transfer of a Bond will be effected without charge by or on behalf of the Issuer, the Registrar or the Transfer Agent but against such indemnity as the Registrar or (as the case may be) the Transfer Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

(f) ***Closed periods***

No Bondholder may require the transfer of the Bonds to be registered during (i) the period of 15 days prior to (and including) the due date of any payment of principal or interest in respect of the Bonds or (ii) during the period commencing on the date of a Non-Viability Triggering Event Notice (as defined in Condition 3(c) below) and ending on (and including) the close of business in the PRC on the effective date of the Write-off (as defined in Condition 3(c)).

(g) ***Regulations concerning transfers and registration***

All transfers of Bonds and entries on the Register are subject to the detailed regulations concerning the transfer of Bonds scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Registrar. A copy of the current regulations will be made available for inspection by the Registrar to any Bondholder who requests in writing a copy of such regulations.

3. Subordination and Non-Viability Triggering Event

(a) ***Subordination***

The claims of the Bondholders for payment of principal and any interest under the Bonds shall, in the event of the Cessation of Business, Bankruptcy or Winding-Up of the Issuer, be subordinated to the claims of depositors or general creditors of the Issuer; rank in priority to the claims of all holders of equity capital, Additional Tier 1 Capital Instruments and hybrid capital bonds of the Issuer that rank junior to the Bonds; and rank *pari passu* with the claims under any other Tier 2 Capital Instruments. The Bondholders shall not have any right to accelerate any payment of principal or interest under the Bonds other than upon any Cessation of Business, Bankruptcy or Winding-Up of the Issuer.

In addition, in the event of the Cessation of Business, Bankruptcy or Winding-Up of the Issuer, the claims of the Bondholders for payment of principal and any interest under the Bonds shall be subordinated to the claims of all holders of securities that rank in priority to the Bonds.

The priority of claims set out in this Condition 3(a) applies to all claims of holders of relevant securities, present or future, issued or guaranteed by the Issuer that rank or are expressed to rank in priority to, junior to or *pari passu* with the Bonds, as the case may be, by operation of law or contract.

(b) ***Set-off***

Subject to applicable law, no Bondholder may exercise, claim or plead any right of set-off, counter-claim or retention in respect of any amount owed to it by the Issuer arising under or in connection with the Bonds and each Bondholder shall, by virtue of being the holder of any Bond, be deemed to have waived all such rights of set-off, counter-claim or retention. Notwithstanding the preceding sentence, if any of the amounts owing to any Bondholder by the Issuer in respect of, or arising under or in connection with, the Bonds is discharged by set-off or otherwise, such Bondholder shall, subject to applicable law, immediately pay an amount equal to the amount of such discharge to the Issuer (or, in the event of its Winding-Up, the liquidator of the Issuer) and, until such time as payment is made, shall hold an amount equal to such amount in trust for the Issuer (or the liquidator of the Issuer (as the case may be)) and accordingly any such discharge shall be deemed not to have taken place.

(c) ***Write-off on a Non-Viability Triggering Event***

The ability to operationally effect any Write-off of any Bond under this Condition 3(c) in or through the relevant clearing system(s) is subject to the availability of procedures to effect any such Write-off in such clearing system(s). However, any Write-off of any Bonds with respect to the Issuer under this Condition 3(c) will be effective upon the date that the Issuer specifies in the relevant Non-Viability Triggering Event Notice notwithstanding any inability to operationally effect any such Write-off in the relevant clearing system(s).

If a Non-Viability Triggering Event occurs, the Issuer has the right (without any requirement for the consent of the Bondholders) to irrevocably Write-off (in whole or in part) the principal amount of the Bonds then outstanding, with effect from the next day following the relevant Non-Viability Triggering Event Occurrence Date and after the cancellation or conversion of the aggregate principal amount of all Additional Tier 1 Capital Instruments. The principal amount of the Bonds to be Written-off shall be calculated based on the proportion that the outstanding aggregate principal amount of the Bonds bears to the total outstanding aggregate principal amount of the Tier 2 Capital Instruments with the same triggering event (including the Bonds). Once the principal amount of the Bonds (in whole or in part) has been Written-off, such relevant portion of the Bonds will not be restored or become payable again (whether in whole or in part) in any circumstances (including where the relevant Non-Viability Triggering Event ceases to continue), and any accrued but unpaid interest in respect of such relevant portion of the Bonds shall cease to be payable or enforceable. In addition, there will be no compensation in any form to remedy the loss of the Bondholders.

In respect of the Write-off of the Bonds (in whole or in part) as set out in the first paragraph of this Condition 3(c), such Write-off and any cancellation or conversion of any Additional Tier 1 Capital Instruments and other Tier 2 Capital Instruments will take place as follows:

(A) the Bonds shall be Written-off following the cancellation or conversion, in accordance with the terms thereof or any applicable laws and regulations, in full of the principal amount of all Additional Tier 1 Capital Instruments (and all relevant accrued but unpaid amounts shall cease to be payable or enforceable); and

(B) the Bonds shall be Written-off concurrently with the cancellation or conversion, in accordance with the terms thereof or any applicable laws and regulations, of the principal amount of all other Tier 2 Capital Instruments (and all relevant accrued but unpaid amounts shall cease to be payable or enforceable). If the Bonds are to be Written-off in part only, the principal amount of the Bonds to be Written-off shall be calculated based on the proportion that the outstanding aggregate principal amount of the Bonds bears to the total outstanding aggregate principal amount of all Tier 2 Capital Instruments with the same triggering event (including the Bonds).

The application of partial Write-off on any Bonds set out in Condition 3(c) above is subject to the determination of the relevant authorities. See "Risk Factors – Risks relating to the Bonds – The Bonds contain non-viability loss absorption provisions which if triggered would result in the principal amount in respect of the Bonds being Written-off and the related accrued but unpaid interest ceasing to be payable and enforceable".

The Issuer shall give a notice to the Bondholders and the Fiscal Agent within two business days following a Non-Viability Triggering Event Occurrence Date stating the details of the relevant Non-Viability Triggering Event, the amount of the Bonds to be Written-off, the method used to calculate the amount to be Written-off, the effective date of the Write-off and the manner in which the Write-off will be effected and procedures of the Write-off (a "**Non-Viability Triggering Event Notice**") and concurrently make a public announcement of the details of such Non-Viability Triggering Event Notice. In this paragraph, the expression "**business day**" means a day (other than a Saturday, Sunday or public holiday) on which commercial banks in the PRC and Hong Kong are open for business.

Upon giving of a Non-Viability Triggering Event Notice, the Issuer shall procure that a similar notice is concurrently, or has been, given in respect of each Additional Tier 1 Capital Instruments and each other Tier 2 Capital Instruments in accordance with the terms and requirements thereof or any applicable laws and regulations.

Each Bondholder shall be deemed to have authorised, directed and requested the Fiscal Agent, the Registrar and the other Agents, as the case may be, to take any and all necessary action to give effect to any Non-Viability Triggering Event and the Write-off of the Bonds following the occurrence of such Non-Viability Triggering Event.

In these Conditions:

(i) "**Non-Viability Triggering Event**" means the occurrence of the earlier of either:

(a) the CBIRC having decided that a Write-off is necessary, without which the Issuer would become non-viable; or

(b) any relevant authority having decided that a public sector injection of capital or equivalent support is necessary, without which the Issuer would become non-viable.

*As at the date of the Offering Circular, to the Issuer's knowledge, pursuant to Paragraph 2(1) of the Guiding Opinions on Innovation of Capital Instruments of Commercial Banks issued by the China Banking and Insurance Regulatory Commission (Revised)(中國銀行業監督管理委員會關於商業銀行資本工具創新的指導意見(修訂))(the "**2019 Guiding Opinions**"), the relevant authorities regarding paragraph (b) in the definition above or in the case of a partial Write-off as set out above are those which may determine whether a public sector injection of capital or equivalent support is necessary, which include the State Council, MOF, PBOC and the CBIRC. In making such determination (regarding paragraph (b) in the definition above or in the case of a partial Write-off as set out above), the relevant authorities may consult each other and/or seek joint agreement among themselves. The CBIRC Capital Regulations and the 2019 Guiding Opinions will be subject to interpretation and application by the CBIRC and the relevant authorities.*

(ii) "**Non-Viability Triggering Event Occurrence Date**" means the date on which the CBIRC or the relevant authority has decided a Non-Viability Triggering Event occurs and has informed the Issuer, together with a public announcement of, such Non-Viability Triggering Event. If there is any uncertainty of any Non-Viability Triggering Event Occurrence Date, the date determined by the CBIRC or the relevant authority shall prevail.

(iii) "**Write-off**" or "**Written-off**" means the cancellation (in whole or in part) of the principal amount of the Bonds which shall not be restored (whether in whole or in part) under any circumstances (including where the relevant Non-Viability Triggering Event ceases to continue). References to "**Write-off**" or "**Written-off**" in these Conditions shall be construed to include the cessation of payment and non-enforceability of any accrued but unpaid interest on such cancelled Bonds.

4. Interest

(a) ***Interest***

The Bonds bear interest on their outstanding principal amount from, and including, 21 January 2022 (the "**Issue Date**") at the applicable Interest Rate in accordance with this Condition 4. Interest shall be payable semi-annually in arrear on 21 January and 21 July in each year (each an "**Interest Payment Date**") commencing on 21 July 2022.

Each Bond will cease to bear interest from the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused. In such event it shall continue to bear interest at the applicable Interest Rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Bond up to that day are received by or on behalf of the relevant holder, and (b) the day seven days after the Fiscal Agent has notified Bondholders of receipt of all sums due in respect of all the Bonds up to that seventh day (except to the extent that there is failure in the subsequent payment to the relevant holders under these Conditions).

The period beginning on (and including) the Issue 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 is called an "**Interest Period**".

The applicable interest rate of the Bonds shall not be subject to any step up nor contain any incentive to redeem. The applicable interest rate is not linked to any credit rating of the Issuer and shall not be adjusted according to changes in the credit rating of the Issuer in the future.

Any payment of interest on the Bonds will be subject to the prevailing regulatory requirements of the relevant regulatory authorities in effect at the time of such payment, including that the payment of interest on the Bonds shall be made from available resources of the Issuer.

See "Risk Factors – Risks relating to the Bonds – The provisions on available resources in the CBIRC Capital Regulations are subject to interpretation by the relevant regulatory authorities and the application of relevant laws, rules and regulations" for more details.

(b) ***Interest Rate***

The rate of interest (the "**Interest Rate**") applicable to the Bonds shall be:

(i) in respect of the period from, and including, the Issue Date to, but excluding, the Reset Date, 2.85 per cent. per annum; and

(ii) in respect of the period from, and including, the Reset Date to, but excluding, the Maturity Date, the Reset Interest Rate.

Interest on the Bonds will be calculated on a simple interest basis per annum, payable semi-annually in arrear. The Bonds do not require any overdue interest to be compounded and do not provide for any increased default interest.

(c) ***Interest Rate Determination***

The Calculation Agent will, on the Calculation Date, determine the Reset Interest Rate in respect of the Bonds. The Calculation Agent will cause the Reset Interest Rate determined by it to be notified to the Issuer, the Fiscal Agent and the Bondholders as soon as possible after their determination but in no event later than the fourth business day thereafter. If the Bonds become due and payable under Condition 8, the Reset Interest Rate and interest accrued per Calculation Amount shall nevertheless continue to be determined by the Calculation Agent in accordance with this Condition 4 but no publication of the Reset Interest Rate so calculated need be made. All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 4 by the Calculation Agent will (in the absence of manifest error) be binding on the Issuer, the Agents and the Bondholders and (subject as aforesaid) no liability will attach to the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.

(d) ***Calculation of Interest***

Interest in respect of any Bond shall be calculated per U.S.$1,000 in principal amount of the Bonds (the "**Calculation Amount**"), subject to adjustments after the occurrence of a Non-Viability Triggering Event. The amount of interest payable per Calculation Amount for any period shall be the product of (i) the rate of interest specified in Condition 4(b), (ii) the Calculation Amount and (iii) the day count fraction for the relevant period, and rounding the resulting figure to the nearest cent (half a cent being rounded upwards).

If interest is required to be calculated for any period, the relevant day count fraction will be determined on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed.

(e) ***Business Day***

In this Condition 4, the expression "**business day**" means a day (other than Saturdays, Sundays or public holidays) on which commercial banks and foreign exchange markets are open for business (including dealings in U.S. dollar deposits) in Hong Kong and New York City.

5. Redemption, Substitution, Variation and Purchase

(a) ***Final Redemption***

Unless previously redeemed, or Written-off, the Bonds will be redeemed on 21 January 2032 (the "**Maturity Date**") at their outstanding principal amount, together with accrued but unpaid interest up to (but excluding) the Maturity Date.

Except as otherwise provided in these Conditions, the Issuer does not have the option to repay the Bonds prior to the Maturity Date. In addition, the Bondholders do not have the right to require the Issuer to repay the Bonds prior to the Maturity Date.

(b) ***Redemption for Regulatory Reasons***

Subject to any applicable regulatory requirements, the satisfaction of the Redemption Conditions, and prior written consent of the CBIRC having been obtained, the Issuer may redeem at its option all but not some only of the Bonds at any time (whether before or following the Call Date) at their principal amount together with interest accrued to, but excluding, the date fixed for redemption but unpaid, if a change in the CBIRC Capital Regulations or regulations made thereunder occurs on or after the Issue Date having the effect that all of the Bonds, after having qualified as such, will be fully disqualified as Tier 2 Capital of the Issuer under the CBIRC Capital Regulations (other than as a result of any discounting or amortisation requirements as to the eligibility of the Bonds for such inclusion pursuant to the relevant law and regulation in force as at the Issue Date) (the "**Regulatory Redemption Event**").

Subject to the satisfaction of the Redemption Conditions, the redemption option set out in this Condition 5(b) shall be exercised by the Issuer upon giving the Redemption Notice to the Bondholders with not less than 30 nor more than 60 days' prior notice (which notice shall be irrevocable, and with a copy to be provided to the Fiscal Agent) and concurrently making a public announcement of the details of such Redemption Notice, **provided, however, that** no Redemption Notice shall be given earlier than 90 days prior to the earliest date on which it is determined that a Regulatory Redemption Event has occurred. Such Redemption Notice shall include details of the date fixed for redemption, the principal amount of the Bonds to be redeemed, the manner in which the redemption will be effected and the method and time of payment of the redemption amounts.

Concurrent with the giving of any Redemption Notice pursuant to the foregoing paragraphs of this Condition 5(b), the Issuer shall deliver to the Fiscal Agent (i) an opinion of reputable legal advisers of recognised standing to the effect that a Regulatory Redemption Event has occurred and (ii) a copy of the written opinion of the CBIRC consenting to such redemption, certified as a true copy of the original by the Issuer.

(c) ***Redemption at the Option of the Issuer***

Subject to the following provisions of this Condition 5(c), the Bonds are redeemable at the option of the Issuer on a one-time basis prior to the Maturity Date. Subject to the satisfaction of the Redemption Conditions and the prior consent of the CBIRC having been obtained, the Issuer may redeem at its option all but not some only of the Bonds on 21 January 2027 (the "**Call Date**"), at their principal amount together with interest accrued to, but excluding, the date fixed for redemption but unpaid.

Subject to the satisfaction of the Redemption Conditions, the redemption option set out in this Condition 5(c) shall be exercised by the Issuer upon giving the Redemption Notice to the Bondholders with not less than 30 nor more than 60 days' prior notice (which notice shall be irrevocable, and with a copy to be provided to the Fiscal Agent) and concurrently making a public announcement of the details of such Redemption Notice. Such Redemption Notice shall include details of the date fixed for redemption, the principal amount of the Bonds to be redeemed, the manner in which the redemption will be effected and the method and time of payment of the redemption amounts.

Concurrent with the giving of any such Redemption Notice pursuant to the foregoing paragraphs of this Condition 5(c), the Issuer shall deliver to the Fiscal Agent (i) a copy of the written opinion of the CBIRC (the "**CBIRC Approval**") consenting to such redemption, certified as a true copy of the original by the Issuer; and (ii) a certificate signed by an authorised signatory of the Issuer confirming that the CBIRC Approval has been obtained and the Redemption Conditions have been satisfied.

(d) ***Substitution or Variation***

Subject to the prior written consent of the CBIRC, the Issuer may (without any requirement for consent of the Bondholders), having given not less than 30 nor more than 60 days' notice to the Bondholders (which notice shall be irrevocable, and with a copy to be provided to the Fiscal Agent), at any time (whether before or following the Call Date) substitute all but not some only of the Bonds for, or vary the terms of the Bonds so that they remain or, as appropriate, become, Qualifying Tier 2 Capital Instruments.

Prior to the publication of any notice of substitution or variation, the Issuer shall deliver to the Fiscal Agent (i) an opinion of reputable legal advisers of recognised standing to the effect that the relevant substituted bonds or varied bonds (as the case may be) will as of their effective date remain or, as appropriate, become, Qualifying Tier 2 Capital Instruments and (ii) a copy of the written opinion of the CBIRC consenting to such substitution or variation, certified as a true copy of the original by the Issuer.

(e) ***Purchase***

The Issuer undertakes that, unless otherwise permitted by the CBIRC:

(i) neither it nor any affiliates controlled by it or over which it has significant influence shall purchase any Bonds; and

(ii) it shall not directly or indirectly provide any financing for any Bondholder to purchase any Bonds.

Any purchases of the Bonds permitted by the CBIRC may be made by the Issuer or any such affiliates, subject to applicable laws and regulations, at any price in the open market or otherwise.

For the avoidance of doubt, Condition 5(e) shall not apply to the Issuer or any of affiliates controlled by it or over which it has significant influence holding the Bonds in a purely nominee capacity.

(f) ***Redemption Conditions***

In these Conditions, "**Redemption Conditions**" means the following conditions precedent (together with the prior written consent of the CBIRC) to the exercise of the right of the Issuer to redeem the Bonds prior to their stated maturity pursuant to these Conditions:

(i) the capital of the Issuer will be replenished by substitution of the Bonds with capital instruments of the same or superior loss absorption quality to the Bonds and such substitution shall only be made at a time at which the Issuer has a sustainable income generating capability; or

(ii) the capital position of the Issuer immediately after redemption of the Bonds will remain significantly higher than the regulatory capital requirements prescribed by the CBIRC.

6. Payments

(a) ***Method of Payment***

(i) Payments of principal shall be made (subject to surrender of the relevant Certificates at the specified office of any Transfer Agent or of the Registrar if no further payment falls to be made in respect of the Bonds represented by such Certificates) in the manner provided in Condition 6(a)(ii).

(ii) Interest on each Bond shall be paid to the person shown on the Register at the close of business on the business day (as defined below) before the due date for payment thereof (the "**Record Date**"). Payments of any amounts on each Bond shall be made by transfer to a U.S. dollar account maintained by or on behalf of such holder with a bank in New York City, details of which appear on the Register at the close of business on the Record Date.

(iii) If the amount of principal being paid upon surrender of the relevant Certificate is less than the outstanding principal amount of such Certificate, the Registrar will annotate the Register with the amount of principal so paid and will (if so requested by the Issuer or a Bondholder) issue a new Certificate with a principal amount equal to the remaining unpaid outstanding principal amount. If the amount of interest being paid is less than the amount then due, the Registrar will annotate the Register with the amount of interest so paid.

Regarding the Record Date while the Bonds are in global form, see "Summary of Provisions relating to the Bonds in Global Form".

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

(b) ***Payments subject to Fiscal Laws***

All payments are subject in all cases to any applicable fiscal or other laws, regulations and directives in the place of payment, but without prejudice to the provisions of Condition 7 and any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 7) any law implementing an intergovernmental approach thereto. No commission or expenses shall be charged to the Bondholders in respect of such payments.

(c) ***Payment Initiation***

Payment instructions (for value the due date, or if that is not a business day, for value the first following day which is a business day) will be initiated on the due date for payment (or, if it is not a business day, the immediately following business day) or, in the case of payments of principal, if later, on the business day on which the Fiscal Agent is open for business and on which the relevant Certificate is surrendered.

(d) ***Delay in Payment***

Bondholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due on a Bond if the due date is not a business day, or if the Bondholder is late in surrendering or cannot surrender its Certificate (if required to do so).

(e) ***Business Days***

In this Condition 6, "**business day**" means a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets are open for business in New York City and the city in which the specified office of the Fiscal Agent is located.

(f) ***Appointment of Agents***

The Fiscal Agent, the Paying Agent, the Registrar, the Calculation Agent and the Transfer Agent initially appointed by the Issuer and their respective specified offices are listed below. The Fiscal Agent, the Paying Agent, the Registrar, the Calculation Agent and the Transfer Agents act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any Bondholder. The Issuer reserves the right at any time to vary or terminate the appointment of the Fiscal Agent, the Paying Agent, the Registrar, the Calculation Agent or any Transfer Agent and to appoint additional or other Agents, **provided that** the Issuer shall at all times maintain (i) a Fiscal Agent, (ii) a Registrar with a specified office outside the United Kingdom, (iii) a Transfer Agent, (iv) a Calculation Agent where the Conditions so require, and (v) such other agents as may be required by any other stock exchange on which the Bonds may be listed.

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

7. Taxation and Withholding

All payments of principal and/or interest in respect of the Bonds will be made free and clear of, and without withholding or deduction for or on account of any present or future tax, duty, assessments or governmental charges of whatsoever nature imposed or levied by or on behalf of the PRC or any political subdivision or any authority thereof or therein having power to levy tax in the PRC, unless such withholding or deduction is required by the laws of the PRC. In that event, the Issuer shall pay such additional amounts as will result in the receipt by the Bondholders of such amounts as would have been received by them if no such withholding or deduction had been required, **provided, however, that** no such additional amounts shall be payable in respect of any Bond:

(i) to a Bondholder who is liable to such taxes, duties, assessments or governmental charges in respect of such Bond by reason of its having some connection with the PRC other than the mere holding of such Bond; or

(ii) to a Bondholder who would not be liable for or subject to such withholding or deduction by making a declaration of identity, non-residence or other similar claim for exemption to the relevant tax authority if, after having been requested to make such a declaration or claim, such holder fails to do so within any applicable period prescribed by such relevant tax authority in the place where the Certificate representing the Bond is presented for payment; or

(iii) in respect of which the Certificate representing it is presented more than 30 days after the Relevant Date except to the extent that the relevant Bondholder would have been entitled to such additional amounts if it had presented such Bond on the last day of such period of 30 days.

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

For the avoidance of doubt, the Issuer's obligation to pay additional amounts in respect of taxes, duties, assessments and other governmental charges will not apply to (a) any estate, inheritance, gift, sales, transfer, personal property or any similar tax, duty, assessment or other governmental charge or (b) any tax, duty, assessment or other governmental charge which is payable otherwise than by deduction or withholding from payments of principal of, or interest on the Bonds; **provided that** the Issuer shall pay all stamp or other taxes, duties, assessments or other governmental charges, if any, which may be imposed by the PRC or any political subdivision thereof or any taxing authority thereof or therein, as a consequence of the issuance of the Bonds.

Any reference to principal or interest with respect to the Bonds will be deemed to include any additional amounts payable by the Issuer in respect of such principal or interest under this Condition 7.

8. Enforcement Event; Limited Right of Acceleration

(a) ***Enforcement Event***

Notwithstanding any other provisions of the Bonds, no Bondholder shall have any right to declare any payment of principal or interest under the Bonds immediately due and payable other than upon any Cessation of Business, Bankruptcy or Winding-Up of the Issuer.

(b) ***Proceedings for Winding-Up***

Upon any Cessation of Business, Bankruptcy or Winding-Up in respect of the Issuer, the Bonds shall immediately become, due and payable at their principal amount together with accrued interest without further formality, and any Bondholder may, in respect of the Bonds held by such Bondholder, prove and claim in the Bankruptcy or Winding-Up of the Issuer.

(c) ***Enforcement***

Without prejudice to Condition 8(b), any Bondholder may, in respect of the Bonds held by such Bondholder, institute such proceedings against the Issuer as it may think fit to enforce any term or condition binding on the Issuer under the Bonds (including any payment due under or arising from the Bonds, including, without limitation, payment of any principal or interest in respect of the Bonds and any damages awarded for breach of any obligations but excluding any right to declare the Bonds immediately due and payable prior to any Cessation of Business, Bankruptcy or Winding-Up of the Issuer) and in no event shall the Issuer be obliged to pay any sum or sums, in cash or otherwise, sooner than the same would otherwise have been payable by it.

9. Meetings, Modification of Conditions and Waiver

(a) ***Meeting of Bondholders***

The Agency Agreement contains provisions for convening meetings of Bondholders to consider matters affecting their interests, including without limitation the sanctioning by Extraordinary Resolution of a modification of any of these Conditions. Such a meeting may be convened by the Issuer or Bondholders holding not less than 10 per cent. in principal amount of the Bonds for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution will be two or more persons holding or representing more than 50 per cent. in principal amount of the Bonds for the time being outstanding, or at any adjourned meeting two or more persons being or representing Bonds whatever the principal amount of the Bonds held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to modify the maturity of the Bonds or the dates on which interest is payable in respect of the Bonds, (ii) to reduce or cancel the principal amount of, or interest on, or to vary the method of calculating the rate of interest on, the Bonds, (iii) to change the currency of payment of the Bonds, or to modify the ranking of the Bonds, or (v) to modify the provisions concerning the quorum required at any meeting of Bondholders or the majority required to pass an Extraordinary Resolution, in which case the necessary quorum will be two or more persons holding or representing not less than 75 per cent., or at any adjourned meeting not less than 25 per cent., in principal amount of the Bonds for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on all Bondholders (whether or not they were present at the meeting at which such resolution was passed). The agreement or approval of the Bondholders shall not be required (x) in the case of any Write-off of any principal amount or accrued but unpaid interest to be made in the circumstances described in Condition 3(c) or (y) in the case of any substitution or variation of these Conditions required to be made in the circumstances described in Condition 5(d) in connection with the substitution or variation of the Bonds so that they remain or, as appropriate, become, Qualifying Tier 2 Capital Instruments.

The Agency Agreement provides that (i) a resolution in writing signed by or on behalf of the holders of not less than 90 per cent. in principal amount of the Bonds for the time being outstanding; and (ii) consent given by way of electronic consents through the relevant clearing system(s) in accordance with their operating rules and procedures by or on behalf of the holders of not less than 90 per cent. in principal amount of the Bonds for the time being outstanding, shall, in each case, be effective as an Extraordinary Resolution of the Bondholders.

(b) ***Modification and Waiver***

The parties to the Agency Agreement may agree to modify any provision thereof, but the Issuer shall only permit (without the consent of the Bondholders) any modification of, or waiver or authorisation of any breach or proposed breach of or any failure to comply with these Conditions, the Deed of Covenant or any of the provisions of the Agency Agreement either which is (i) of a formal, minor or technical nature or is made to correct a manifest error; or (ii) not materially prejudicial to the interests of the Bondholders. Any determination as to prejudice applying to the interest of the Bondholders pursuant to this Condition shall be made by the Issuer and none of the Agents shall have any responsibility or liability whatsoever with respect to such determinations. Any modification, waiver or authorisation shall be binding on the Bondholder and shall be notified by the Issuer to the Bondholders as soon as practicable thereafter in accordance with Condition 11.

10. Prescription

The right of a Bondholder to receive any payment under the Bonds shall become void 10 years (in the case of principal) or six years (in the case of interest) after the due date for such payment.

11. Notices

Any notice to the holder of any Bonds 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 any Bonds shall also be published in a leading English language daily newspaper having general circulation in Asia (which is expected to be The Asian Wall Street Journal). The Issuer shall also ensure that notices are duly published in a manner that complies with the rules and regulations of any stock exchange or other relevant authority on which the Bonds are for the time being listed. Any such notice shall be deemed to have been given on the date first publication is made.

Until such time as any definitive Certificates are issued and so long as the Global Bond Certificate is held in its entirety on behalf of Euroclear and Clearstream, any notice to the Bondholders shall be validly given by the delivery of the relevant notice to Euroclear and Clearstream for communication by the relevant clearing system to entitled accountholders in substitution for notification as required by the Conditions and shall be deemed to have been given on the date of delivery to such clearing system.

12. Further Issues

The Issuer may from time to time without the consent of the Bondholders create and issue further securities either having the same terms and conditions as the Bonds in all respects (or in all respects except for the first payment of interest on them) and so that such further issue shall be consolidated and form a single series with the outstanding securities of any series (including the Bonds) or upon such terms as the Issuer may determine at the time of their issue. References in these Conditions to the Bonds include (unless the context requires otherwise) any other securities issued pursuant to this Condition 12 and forming a single series with the Bonds.

13. Replacement of Certificates

If any Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations or other relevant regulatory authority regulations, at the specified office of the Registrar or any Transfer Agent as may from time to time be designated by the Issuer for that purpose and notice of whose designation is given to Bondholders, 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, indemnity and otherwise as the Issuer or the Registrar or such Transfer Agent may require (**provided that** the requirement is reasonable in light of prevailing market practice). Mutilated or defaced Certificates must be surrendered before replacements will be issued.

14. Contracts (Rights of Third Parties) Act 1999

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

15. Governing Law and Jurisdiction

(a) ***Governing Law***

The Bonds 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, save that Condition 3(a) relating to subordination of the Bonds are governed by, and shall be construed in accordance with, PRC law.

(b) ***Jurisdiction***

The courts of Hong Kong are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Bonds and accordingly any legal action or proceedings arising out of or in connection with the Bonds ("**Proceedings**") may be brought in such courts. The Issuer has irrevocably submitted to the jurisdiction of such courts and waived any objection to Proceedings in such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum.

(c) ***Waiver of Immunity***

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

16. Definitions

For the purposes of these Conditions:

"**Additional Tier 1 Capital Instruments**" means any equity security or any other similar obligation issued or guaranteed by the Issuer that, in each case, constitutes Additional Tier 1 Capital（其他一級資本）(as defined under the CBIRC Capital Regulations) of (i) the Issuer, on an unconsolidated basis, or (ii) the Group, on a consolidated basis, pursuant to the relevant requirements set out in Paragraph 2 of Schedule 1 (or its successor) of the CBIRC Capital Regulations or, for the purpose of Condition 3(a) only, which ranks equally with any such equity security or other similar obligation although it does not itself constitute such Additional Tier 1 Capital（其他一級資本）.

"**Benchmark Rate**" means the rate in per cent. per annum notified by the Calculation Agent to the Issuer and the Bondholders (in accordance with Condition 11) equal to the yield representing the average of the daily yields for the week immediately prior to the Calculation Date as derived from the most recently published statistical release designated "H. 15" or any successor publication that is published by the Board of Governors of the Federal Reserve System and that establishes yields on actively traded U.S. Treasury securities adjusted to constant maturity under the caption "Treasury constant maturities" for the maturity corresponding to the Comparable Treasury Issue. If there is no Comparable Treasury Issue with a maturity within three months before or after the Maturity Date, yields for the two published maturities most closely corresponding to such Maturity Date will be determined and the Benchmark Rate will be interpolated or extrapolated from such yields on a straight-line basis, rounding to the nearest month). If such release (or any successor release) is not published during the week preceding the Calculation Date or does not contain such yields, "**Benchmark Rate**" means the rate in per cent. per annum equal to the yield to maturity of the Comparable Treasury Issue, calculated using a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for the Calculation Date. If there is no Comparable Treasury Price on the Calculation Date for whatever reason, "**Benchmark Rate**" means the rate in per cent. per annum as notified by the Calculation Agent to the Issuer and the Bondholders (in accordance with Condition 11) equal to the yield representing the average of the daily yields for the week which were last available preceding the Calculation Date, as derived from the most recently published statistical release designated "H. 15" or any successor publication that is published by the Board of Governors of the Federal Reserve System and that establishes yields on actively traded U.S. Treasury securities adjusted to constant maturity under the caption "Treasury constant maturities" for the maturity corresponding to the Comparable Treasury Issue.

"**Calculation Date**" means, for the purpose of calculating the Reset Interest Rate, the second Determination Day prior to the Reset Date.

"**CBIRC**" means the China Banking and Insurance Regulatory Commission or any successor entity with the primary responsibility to supervise the Issuer.

In April 2018, China Banking Regulatory Commission and China Insurance Regulatory Commission were merged as the CBIRC, covering the regulation of banking and insurance sectors in the PRC.

"**CBIRC Capital Regulations**" means *the Administrative Measures for the Capital of Commercial Banks (for Trial Implementation)(商業銀行資本管理辦法(試行))* issued by the CBIRC, as amended, novated, supplemented, restated or replaced from time to time.

"**Comparable Treasury Issue**" means in relation to calculating the Reset Interest Rate, the U.S. Treasury security selected by the Issuer and notified in writing to the Calculation Agent as having a maturity of five years that would be utilised, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities with a maturity of five years.

"**Comparable Treasury Price**" means, with respect to the Calculation Date, the average of three Reference Treasury Dealer Quotations for the Calculation Date.

"**Determination Day**" means a day (other than Saturdays and Sundays) on which commercial banks in New York City are open for business.

"**Extraordinary Resolution**" has the meaning given to it in the Agency Agreement.

"**Group**" means the Issuer and its Subsidiaries taken as a whole.

"**Margin**" means 1.40 per cent.

"**PRC**" means the People's Republic of China, excluding, for purpose of these Conditions only, the Hong Kong Special Administrative Region of the PRC, the Macau Special Administrative Region of the PRC and Taiwan.

"**Qualifying Tier 2 Capital Instruments**" means securities issued or guaranteed by the Issuer:

(a) have terms not materially less favourable to an investor than the terms of the Bonds (including, without limitation, that (A) they shall contain terms which comply with the then current requirements of the CBIRC in relation to Tier 2 Capital; (B) they shall include terms which provide for at least the same interest rate from time to time applying to the Bonds; (C) they shall rank at least *pari passu* with the Bonds (or would so rank if the Bonds remained outstanding); (D) payments made in respect of such securities will be made without withholding on account of taxes in the PRC or be subject to grossing up on at least the same terms as in the Bonds; and (E) such securities shall preserve any existing rights under the Conditions to any accrued interest which has not been paid); and

(b) are, to the extent the Bonds are listed on a stock exchange at the time of such modification or variation, listed on The Stock Exchange of Hong Kong Limited or such other internationally recognised and reputable stock exchange as selected by the Issuer.

"**Redemption Notice**" means, in respect of any exercise by the Issuer of its redemption option, the redemption notice to be given by the Issuer to the Bondholders in accordance with these Conditions.

"**Reference Treasury Dealer**" means each of the three nationally recognised investment banking firms selected by the Issuer that are primary U.S. Government securities dealers.

"**Reference Treasury Dealer Quotations**" means with respect to each Reference Treasury Dealer and the Calculation Date, the average, as determined by the Calculation Agent, of the bid and asked prices for the Comparable Treasury Issue, expressed in each case as a percentage of its principal amount, quoted in writing to the Calculation Agent by such Reference Treasury Dealer at or about 10.00 a.m. (New York City time), on the Calculation Date.

"**Reset Date**" means 21 January 2027.

"**Reset Interest Rate**" means the interest rate per annum equal to the sum of the Benchmark Rate with respect to the Reset Date plus the Margin.

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

"**Tier 2 Capital**" means the meaning given to Tier 2 Capital(二級資本)in the CBIRC Capital Regulations.

"**Tier 2 Capital Instruments**" means any security or other similar obligation issued or guaranteed by the Issuer that, in each case, constitutes Tier 2 Capital of (i) the Issuer, on an unconsolidated basis, or (ii) the Group, on a consolidated basis, pursuant to the relevant requirements set out in Paragraph 3 of Schedule 1 (or its successor) of the CBIRC Capital Regulations, as the case may be.

"**Winding-Up**", "**Cessation of Business**" or "**Bankruptcy**" means, with respect to the Issuer, a final and effective order or resolution for the insolvency, cessation of business, bankruptcy, winding-up, dissolution, administration or similar proceeding in respect of the Issuer (except for the purposes of a reconstruction, consolidation, amalgamation, merger or reorganisation the terms of which have previously been approved by an Extraordinary Resolution of the Bondholders).

SUMMARY OF PROVISIONS RELATING TO THE BONDS IN GLOBAL FORM

The Global Bond Certificate for the Bonds contains provisions which apply to the Bonds while they are in global form, some of which modify the effect of the Terms and Conditions of the Bonds set out in this Offering Circular. The following is a summary of certain of those provisions.

The Bonds will be issued in registered form and represented by a Global Bond Certificate registered in the name of a nominee of, and deposited with, a common depositary on behalf of Euroclear and Clearstream.

Under the Global Bond Certificate, the Issuer, for value received, will promise to pay the amount payable under the Terms and Conditions of the Bonds represented by the Global Bond Certificate to the Bondholders in such circumstances as the same may become payable in accordance with the Terms and Conditions of the Bonds.

So long as the Bonds are represented by the Global Bond Certificate and the Global Bond Certificate is held on behalf of a clearing system, the Bank has promised, *inter alia*, to pay interest in respect of the Bonds from the Issue Date in arrear at the rates, on the dates for payment, and in accordance with the method of calculation provided for in the Terms and Conditions of the Bonds, save that the calculation is made in respect of the total aggregate amount of the Bonds represented by the Global Bond Certificate, together with such other sums and additional amounts (if any) as may be payable under the Terms and Conditions of the Bonds, all subject to and in accordance with the Terms and Conditions of the Bonds.

Owners of interests in the Bonds in respect of which the Global Bond Certificate is issued will be entitled to have title to the Bonds registered in their names and to receive individual definitive Certificates (i) if either Euroclear or Clearstream or any other clearing system (an "**Alternative Clearing System**") is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so; or (ii) if any amount in respect of any Bonds is not paid when due and payable. In such circumstances, the Issuer will cause sufficient individual definitive Certificates to be executed and delivered to the Registrar for completion, authentication and dispatch to the relevant holders of the Bonds. A person with an interest in the Bonds in respect of which the Global Bond Certificate is issued must provide the Registrar not less than 30 days' notice at its specified office of such holder's intention to effect such exchange and a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such individual definitive Certificates.

If any amount in respect of any Bonds is not paid when due and payable, the holder of the Bonds represented by the Global Bond Certificate may from time to time elect that Direct Rights (as defined in the Deed of Covenant) under the provisions of the Deed of Covenant shall come into effect in respect of a principal amount of Bonds up to the aggregate principal amount or number in respect of which such event has occurred. Such election shall be made by notice to the Fiscal Agent by the holder of the Bonds represented by the Global Bond Certificate specifying the principal amount of Bonds represented by the Global Bond Certificate in respect of which Direct Rights shall arise under the Deed of Covenant. Upon each such notice being given, the Global Bond Certificate and the corresponding entry in the Register shall become void to the extent of the principal amount stated in such notice, save to the extent that the appropriate Direct Rights shall fail to take effect, for whatever reason. No such election may however be made unless the transfer of the whole or a part of the holding of Bonds represented by this Global Bond Certificate shall have been improperly withheld or refused, unless the holder elects in such notice that the exchange in question shall no longer take place.

Notwithstanding Condition 11 (*Notices*) of the Terms and Conditions of the Bonds, so long as the Global Bond Certificate is held on behalf of Euroclear, Clearstream or any other clearing system approved in accordance with the Agency Agreement (an "**Alternative Clearing System**"), notices to holders of the Bonds represented by the Global Bond Certificate may be given by delivery of the relevant notice to Euroclear and/or Clearstream and/or (as the case may be) such Alternative Clearing System.

Transfers of the beneficial interests in the Bonds represented by the Global Bond Certificate will be effected through the records of Euroclear, Clearstream or any Alternative Clearing System, and their respective participants in accordance with the rules and procedures of Euroclear and Clearstream (or any Alternative Clearing System) and their respective direct and indirect participants.

Cancellation of any Bond represented by the Global Bond Certificate which is required by the Terms and Conditions of the Bonds to be cancelled will be effected by reduction in the principal amount of the Bonds in the register of Bondholders and the Global Bond Certificate on its presentation to or to the order of the Registrar for annotation (for information only) in the Global Bond Certificate.

If a Write-off occurs at such time as the Bonds are represented by the Global Bond Certificate, such Write-off will be reflected as a reduction in the aggregate principal amount of the Bonds as represented by such Global Bond Certificate by the total amount to be Written-off. In the event of a Write-off in part only, following the reduction in the aggregate principal amount of the Bonds as represented by such Global Bond Certificate, unless the Bank determines otherwise (acting in good faith and having regard to the rules and procedures of Euroclear or Clearstream or any Alternative Clearing System, as the case may be), the principal amount of the Bonds held by each accountholder will correspondingly be reduced on a *pro rata* basis to the extent practicable, and any excess nominal amount held thereafter by an accountholder that is not wholly divisible by the Calculation Amount for the purposes of voting rights shall be disregarded.

For the purposes of any meeting of Bondholders, the holder of the Bonds represented by the Global Bond Certificate shall (unless the Global Bond Certificate represents only one Bond) be treated as two persons for the purposes of any quorum requirements of a meeting of Bondholders and as being entitled to one vote in respect of each U.S.$1,000 in principal amount of the Bonds.

USE OF PROCEEDS

The net proceeds from the issue of the Bonds, estimated to be approximately U.S.$1,991 million after deducting certain expenses, will be recognised as Tier 2 Capital of the Issuer in accordance with the applicable laws and regulations.

SELECTED CONSOLIDATED FINANCIAL DATA

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

The selected consolidated financial information of the Group as at and for the years ended 31 December 2018 and 2019 has been extracted from the 2019 Financial Statements. The selected consolidated financial information of the Group as at and for the year ended 31 December 2020 has been extracted from the 2020 Financial Statements. The selected consolidated financial data of the Group as at and for the year ended 31 December 2018 were audited by PricewaterhouseCoopers, and the selected consolidated financial data of the Group as at and for the years ended 31 December 2019 and 2020 were audited by Ernst & Young in accordance with HKSA.

The selected consolidated financial data as at and for the six months ended 30 June 2020 and 2021 are extracted from the 2021 First Half Financial Statements prepared and presented in accordance with IAS 34 and have been reviewed by Ernst & Young, in accordance with Hong Kong Standard on Review Engagement 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by HKICPA.

However, such 2021 First Half Financial Statements should not be relied upon by prospective investors to provide the same quality of information associated with information that has been subject to an audit. None of the Managers or their respective affiliates, directors, officers, employees, agents, representatives or advisers or any person who controls any of them makes any representation or warranty, express or implied, regarding the sufficiency of such unaudited but reviewed consolidated financial statements for an assessment of, and potential investors must exercise caution when using such data to evaluate the financial condition and results of operations of the Bank or the Group. Such 2021 First Half Financial Statements 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 2021. See "*Risk Factors – Risks relating to the Bank's Business – Potential investors should not place undue reliance on the financial information that is not audited or reviewed*".

The selected consolidated financial data as at and for the nine months ended 30 September 2020 and 2021 are extracted from the 2021 Third Quarter Financial Statements. As the 2021 Third Quarter Financial Statements have not been audited or reviewed 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 or a review. None of the Managers or their respective affiliates, directors, officers, employees, agents, representatives or advisers or any person who controls any of them makes any representation or warranty, express or implied, regarding the accuracy, completeness and sufficiency of such consolidated financial statements of the Group for an assessment of, and potential investors must exercise caution when using such data to evaluate, the Bank's or the Group's financial condition and results of operations. Such 2021 Third Quarter Financial Statements 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 2021. See "*Risk Factors – Risks relating to the Bank's Business – Potential investors should not place undue reliance on the financial information that is not audited or reviewed*".

The Group has adopted IFRS 16 as issued by IASB in January 2016 with a date of initial application on 1 January 2019. The impact of the adoption of IFRS 16 is disclosed in note 4(27) of the 2019 Financial Statements. The Group has chosen to measure the right-of-use assets at an amount equal to the lease liabilities, adjusted by the amount of prepaid lease payments, etc. Total assets and total liabilities at the consolidated level as at 1 January 2019 both increased by RMB19,944 million as compared to the end of 2018. In addition to land use rights, the Group recognised other right-of-use assets and lease liabilities of RMB21,752 million and RMB19,914 million at the date of initial application, respectively. The reconciliation between the operating lease commitments disclosed in the audited consolidated financial statements for the Group as at and for the year ended 31 December 2018, and the lease liabilities recognised in the statement of financial position at the date of initial application is further set out in note 4(27) of the 2019 Financial Statements. As permitted by the transitional provisions of IFRS 16, the Group elected not to restate comparative figures.

Pursuant to the Notice on strictly implementing the accounting standards for business enterprises and strengthening the annual report of enterprises in 2020(關於嚴格執行企業會計準則切實加強企業2020年年報工作的通知財會(2021) 2號), in respect of the financial information as at and for the year ended 31 December 2020, the Group reclassified its Net Fee and Commission Income from its credit card instalment business, such that it is recognised as Interest Income for the year ended 31 December 2020, while also reclassifying related fee receivables from Other Assets to Loans and Advances to Customers. The comparative figures as at and for the year ended 31 December 2019 were also similarly adjusted, however the comparative figures as at and for the year ended 31 December 2018 have not been adjusted. Investors should therefore exercise caution when comparing the year-to-year financial data of the Bank in relation to such line items for the years ended 31 December 2018, 2019 and 2020.

The information set out below should be read in conjunction with, and is qualified in its entirety by reference to, the relevant consolidated financial statements of the Group, including the notes thereto, included elsewhere in this Offering Circular.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018, 2019 AND 2020, 30 JUNE 2021 AND 30 SEPTEMBER 2021

	As at 31 December			As at 30 June	As at 30 September
	2018	2019	2020	2021	
	(audited)			(unaudited)	
	(RMB millions, unless otherwise stated)				
Assets:					
Cash and deposits with central banks	2,632,863	2,621,010	2,816,164	2,780,438	2,754,917
Deposits with banks and non-bank financial institutions	486,949	419,661	453,233	469,534	450,675
Precious metals	33,928	46,169	101,671	132,842	119,705
Placements with banks and non-bank financial institutions	349,727	531,146	368,404	330,107	263,923
Positive fair value of derivatives	50,601	34,641	69,029	52,304	31,221
Financial assets held under resale agreements	201,845	557,809	602,239	705,282	638,625
Loans and advances to customers	13,365,430	14,542,001[(1)]	16,231,369	17,493,902	17,830,481
Financial investments:					
Financial assets measured at fair value through profit or loss	731,217	675,361	577,952	575,380	533,180
Financial assets measured at amortised cost	3,272,514	3,740,296	4,505,243	4,696,655	4,907,775
Financial assets measured at fair value through other comprehensive income	1,711,178	1,797,584	1,867,458	1,956,288	1,941,150
Long-term equity investments	8,002	11,353	13,702	14,755	16,441
Fixed assets	169,574	170,740	172,505	166,138	164,158
Land use rights	14,373	14,738	14,118	13,818	13,758
Intangible assets	3,622	4,502	5,279	5,100	5,173
Goodwill	2,766	2,809	2,210	2,168	2,171
Deferred tax assets	58,730	72,314	92,950	102,518	91,754
Other assets	129,374	194,127[(1)]	238,728	335,959	370,444
Total assets	**23,222,693**	**25,436,261**	**28,132,254**	**29,833,188**	**30,135,551**

	As at 31 December			As at 30 June	As at 30 September
	2018	2019	2020	2021	
		(audited)		(unaudited)	
			(RMB millions, unless otherwise stated)		
Liabilities:					
Borrowings from central banks	554,392	549,433	781,170	765,913	690,434
Deposits from banks and non-bank financial institutions	1,427,476	1,672,698	1,943,634	1,778,272	1,875,344
Placements from banks and non-bank financial institutions	420,221	521,553	349,638	366,938	364,107
Financial liabilities measured at fair value through profit or loss	431,334	281,597	254,079	292,401	247,507
Negative fair value of derivatives	48,525	33,782	81,956	43,797	26,635
Financial assets sold under repurchase agreements	30,765	114,658	56,725	115,668	34,363
Deposits from customers	17,108,678	18,366,293	20,614,976	22,317,969	22,536,436
Accrued staff costs	36,213	39,075	35,460	31,387	34,009
Taxes payable	77,883	86,635	84,161	51,114	71,423
Provisions	37,928	42,943	54,114	63,729	57,220
Debt securities issued	775,785	1,076,575	940,197	957,161	1,137,551
Deferred tax liabilities	485	457	1,551	1,401	1,207
Other liabilities	281,414	415,435	545,240	585,097	511,106
Total liabilities	**21,231,099**	**23,201,134**	**25,742,901**	**27,370,847**	**27,587,342**
Equity:					
Share capital	250,011	250,011	250,011	250,011	250,011
Other equity instruments					
Preference shares	79,636	79,636	59,977	59,977	59,977
Perpetual bonds	-	39,991	39,991	39,991	39,991
Capital reserve	134,537	134,537	134,263	134,924	134,924
Other comprehensive income	18,451	31,986	15,048	14,755	21,425
Surplus reserve	223,231	249,178	275,995	275,995	275,995
General reserve	279,725	314,389	350,228	349,885	350,037
Retained earnings	990,872	1,116,529	1,239,295	1,311,434	1,390,135
Total equity attributable to equity shareholders of the Bank	**1,976,463**	**2,216,257**	**2,364,808**	**2,436,972**	**2,522,495**
Non-controlling interests	15,131	18,870	24,545	25,369	25,714
Total equity	**1,991,594**	**2,235,127**	**2,389,353**	**2,462,341**	**2,548,209**
Total liabilities and equity	**23,222,693**	**25,436,261**	**28,132,254**	**29,833,188**	**30,135,551**

(1) In 2020, the Group re-classified related fee receivables from Other Assets to Loans and Advances to Customers. For the comparative figures in 2019, there was re-classification of RMB1,334 million between the Loans and Advances to Customers and Other Assets. As a result, the amount of Other Assets decreased from RMB195,461 million to RMB194,127 million and the amount of Loans and Advances to Customers increased from RMB14,540,667 million to RMB14,542,001 million.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEARS ENDED 31 DECEMBER 2018, 2019 AND 2020 AND FOR THE SIX MONTHS ENDED 30 JUNE 2021

	For the year ended 31 December			For the six months ended 30 June	
	2018	2019	2020	2020	2021
	(audited)			(unaudited)	
	(RMB millions, unless otherwise stated)				
Interest income	811,026	909,885[1]	989,509	485,537	515,949
Interest expense	(324,748)	(372,819)	(413,600)	(204,029)	(219,864)
Net interest income	**486,278**	**537,066[1]**	**575,909**	**281,508**	**296,085**
Fee and commission income	138,017	126,667[1]	131,512	72,706	77,570
Fee and commission expense	(14,982)	(15,769)[1]	(16,930)	(7,700)	(8,132)
Net fee and commission income	**123,035**	**110,898[1]**	**114,582**	**65,006**	**69,438**
Net trading gain	12,614	9,120	4,313	3,313	2,870
Dividend income	773	1,184	3,182	1,496	3,657
Net gain arising from investment securities	3,444	9,093	5,765	3,984	1,853
Net gain/(loss) on derecognition of financial assets measured at amortised cost	(2,241)	3,359	4,649	1,381	2,527
Other operating income, net:					
– Other operating income	35,918	36,127	47,874	32,779	40,289
– Other operating expense	(26,049)	(28,846)	(42,050)	(29,543)	(35,812)
Other operating income, net	**9,869**	**7,281**	**5,824**	**3,236**	**4,477**
Operating income	**633,772**	**678,001**	**714,224**	**359,924**	**380,907**
Operating expenses	**(174,764)**	**(188,132)**	**(188,574)**	**(79,805)**	**(88,160)**
	459,008	489,869	525,650	280,119	292,747
Credit impairment losses	(151,109)	(163,000)	(193,491)	(111,378)	(108,320)
Other impairment losses	121	(521)	3,562	(188)	(192)
Share of profit of associates and joint ventures	**140**	**249**	**895**	**220**	**228**
Profit before tax	**308,160**	**326,597**	**336,616**	**168,773**	**184,463**
Income tax expense	(52,534)	(57,375)	(63,037)	(29,834)	(30,357)
Net profit	**255,626**	**269,222**	**273,579**	**138,939**	**154,106**
Other comprehensive income:					
(1) Other comprehensive income that will not be reclassified to profit or loss					
Remeasurements of post-employment benefit obligations	(296)	199	479	160	121
Fair value changes of equity instruments designated as measured at fair value through other comprehensive income	120	444	(279)	(277)	(139)
Others	43	59	24	–	4
Subtotal	(133)	702	224	(117)	(14)
(2) Other comprehensive income that may be reclassified subsequently to profit or loss					
Fair value changes of debt instruments measured at fair value through other comprehensive income	35,887	9,005	(9,108)	6,825	2,627
Allowances for credit losses of debt instruments measured at fair value through other comprehensive income	303	1,624	(762)	605	(47)
Reclassification adjustments included in profit or loss due to disposals	(149)	(175)	(491)	(377)	(248)
Net gain/(loss) on cash flow hedges	(267)	(292)	(61)	115	245
Exchange difference on translating foreign operations	2,573	2,682	(6,720)	180	(2,819)
Subtotal	38,347	12,844	(17,142)	7,348	(242)
Other comprehensive income for the year, net of tax	**38,214**	**13,546**	**(16,918)**	**7,231**	**(256)**
Total comprehensive income for the year	**293,840**	**282,768**	**256,661**	**146,170**	**153,850**
Net profit attributable to:					
Equity shareholders of the Bank	254,655	266,733	271,050	137,626	153,300
Non-controlling interests	971	2,489	2,529	1,313	806
	255,626	**269,222**	**273,579**	**138,939**	**154,106**
Total comprehensive income attributable to:					
Equity shareholders of the Bank	292,705	280,268	254,112	144,813	153,007
Non-controlling interests	1,135	2,500	2,549	1,357	843
	293,840	**282,768**	**256,661**	**146,170**	**153,850**
Basic and diluted earnings per share (in RMB Yuan)	**1.00**	**1.05**	**1.06**	**0.55**	**0.61**

(1) In 2020, the Group re-classified Interest Income and Net Fee and Commission Income. For the comparative figures in 2019, there was a re-classification of RMB26,386 million between Interest Income and Net Fee and Commission Income. As a result, the amount of Interest Income increased from RMB883,499 million to RMB909,885 million, the amount of Fee and Commission Income decreased from RMB155,262 million to RMB126,667 million, the amount of Fee and Commission Expense decreased from RMB17,978 million to RMB15,769 million and the amount of Net Fee and Commission Income decreased from RMB137,284 million to RMB110,898 million.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2020 AND 2021

	Nine months ended 30 September	
	2020	**2021**
	(Unaudited)	
	(RMB millions, unless otherwise stated)	
Interest income	734,085	783,336
Interest expense	(306,759)	(335,191)
Net interest income	**427,326**	**448,145**
Fee and commission income	103,088	108,888
Fee and commission expense	(12,120)	(12,275)
Net fee and commission income	**90,968**	**96,613**
Net trading gain	3,125	4,289
Dividend income	2,488	5,023
Net gain arising from investment securities	4,796	7,996
Net gain/(loss) on derecognition of financial assets measured at amortised cost	2,395	4,255
Other operating income, net:		
– Other operating income	40,814	57,888
– Other operating expense	(35,958)	(51,670)
Other operating income, net	**4,856**	**6,218**
Operating income	**535,954**	**572,539**
Operating expenses	**(124,734)**	**(137,484)**
	411,220	**435,055**
Credit impairment losses	(161,315)	(142,043)
Other impairment losses	(448)	(1,213)
Share of profit of associates and joint ventures	**436**	**998**
Profit before tax	**249,893**	**292,797**
Income tax expense	(42,284)	(59,624)
Net profit	**207,609**	**233,173**
Other comprehensive income:		
(1) Other comprehensive income that will not be reclassified to profit or loss		
Remeasurements of post-employment benefit obligations	160	121
Fair value changes of equity instruments designated as measured at fair value through other comprehensive income	(438)	(193)
Others	2	84
Subtotal	(276)	12
(2) Other comprehensive income that may be reclassified subsequently to profit or loss		
Fair value changes of debt instruments measured at fair value through other comprehensive income	(14,307)	10,421
Allowances for credit losses of debt instruments measured at fair value through other comprehensive income	(87)	398
Reclassification adjustments included in profit or loss due to disposals	(268)	(429)
Net gain/(loss) on cash flow hedges	45	228
Exchange difference on translating foreign operations	(3,807)	(4,035)
Subtotal	(18,424)	6,583
Other comprehensive income for the year, net of tax	**(18,700)**	**6,595**
Total comprehensive income for the year	**188,909**	**239,768**
Net profit attributable to:		
Equity shareholders of the Bank	205,832	232,153
Non-controlling interests	1,777	1,020
	207,609	233,173

	Nine months ended 30 September	
	2020	2021
	(Unaudited)	
	(RMB millions, unless otherwise stated)	
Total comprehensive income attributable to:		
Equity shareholders of the Bank	187,152	238,530
Non-controlling interests	1,757	1,238
	188,909	239,768
Basic and diluted earnings per share (in RMB Yuan)	**0.82**	**0.93**

CAPITALISATION AND INDEBTEDNESS

The following table sets forth the Group's capitalisation and indebtedness as at 30 June 2021 as adjusted to give effect to the issuance of the Bonds prior to deducting the commissions and other estimated expenses payable by the Group in connection with this offering. For additional information, see the Group's financial statements and notes thereto included in the F-pages of this Offering Circular.

This table should be read in conjunction with "*Use of Proceeds*" and the consolidated financial statements of the Group and related notes thereto included in the F-pages of this Offering Circular.

	As at 30 June 2021			
	Actual		As adjusted	
	(RMB million)	*(U.S.$ million)*[(1)]	*(RMB million)*	*(U.S.$ million)*[(1)]
Debt				
Bonds to be issued	–	–	12,913	2,000
Other borrowings[(2)]	27,370,847	4,239,204	27,370,847	4,239,204
Total debt	**27,370,847**	**4,239,204**	**27,383,760**	**4,241,204**
Equity				
Share Capital	250,011	38,722	250,011	38,722
Other equity instruments				
Preference shares	59,977	9,289	59,977	9,289
Perpetual bonds	39,991	6,194	39,991	6,194
Capital reserve	134,924	20,897	134,924	20,897
Other comprehensive income	14,755	2,285	14,755	2,285
General reserve	349,885	54,190	349,885	54,190
Retained earnings	1,311,434	203,115	1,311,434	203,115
Surplus reserve	275,995	42,746	275,995	42,746
Non-controlling interests	25,369	3,929	25,369	3,929
Total equity	**2,462,341**	**381,367**	**2,462,341**	**381,367**
Total capitalisation[(3)]	**29,833,188**	**4,620,571**	**29,846,101**	**4,622,571**

Notes:

(1) All translations from RMB to U.S. dollar and from U.S. dollar to RMB are made at the exchange rate as at 30 June 2021: U.S.$1.00 to RMB6.4566.

(2) Other borrowings include borrowings from central banks, deposits from banks and non-bank financial institutions, placements from banks and non-bank financial institutions, financial liabilities measured at fair value through profit or loss, negative fair value of derivatives, financial assets sold under repurchase agreements, deposits from customers, accrued staff costs, taxes payable, provisions, debt securities issued, deferred tax liabilities and other liabilities. Further, after 30 June 2021:

- on 11 August 2021, the Bank announced that it issued its 2021 tier-2 capital bonds (First Tranche) ("**2021 First Tranche Domestic Tier-2 Capital Bonds**") in the domestic interbank bond market. The issuance of 2021 First Tranche Domestic Tier-2 Capital Bonds was completed on 10 August 2021. The size of the 2021 First Tranche Domestic Tier-2 Capital Bonds is RMB80 billion. The 2021 First Tranche Domestic Tier-2 Capital Bonds consist of two types. The first type is fixed rate bonds with a term of 10 years, coupon rate of 3.45 per cent. and an issue size of RMB65 billion, and the Bank is entitled to redeem such bonds at the end of the fifth year. The second type are fixed rate bonds with a term of 15 years, coupon rate of 3.80 per cent. and an issue size of RMB15 billion, and the Bank is entitled to redeem such bonds at the end of the tenth year;

- on 10 November 2021, the Bank announced that it issued its 2021 tier-2 capital bonds (Second Tranche) ("**2021 Second Tranche Domestic Tier-2 Capital Bonds**") in the domestic interbank bond market. The issuance of 2021 Second Tranche Domestic Tier-2 Capital Bonds was completed on 9 November 2021. The size of the 2021 Second Tranche Domestic Tier-2 Capital Bonds is RMB45 billion. The 2021 Second Tranche Domestic Tier-2 Capital Bonds consist of two types. The first type is fixed rate bonds with a term of 10 years, coupon rate of 3.60 per cent. and an issue size of RMB35 billion, and the Bank is entitled to redeem such bonds at the end of the fifth year. The second type are fixed rate bonds with a term of 15 years, coupon rate of 3.80 per cent. and an issue size of RMB10 billion, and the Bank is entitled to redeem such bonds at the end of the tenth year;

- on 29 September 2021, State Elite Global Limited, a subsidiary of the Bank issued U.S.$700,000,000 1.50 per cent. fixed rate notes due 2026 guaranteed by the Hong Kong branch of the Bank;

- on 15 December 2021, the Bank announced that it issued its 2021 tier-2 capital bonds (Third Tranche) ("**2021 Third Tranche Domestic Tier-2 Capital Bonds"**) in the domestic interbank bond market. The issuance of 2021 Third Tranche Domestic Tier-2 Capital Bonds was completed on 14 December 2021. The size of the 2021 Third Tranche Domestic Tier-2 Capital Bonds is RMB20 billion. The 2021 Third Tranche Domestic Tier-2 Capital Bonds consist of two types. The first type is fixed rate bonds with a term of 10 years, coupon rate of 3.48 per cent. and an issue size of RMB12 billion, and the Bank is entitled to redeem such bonds at the end of the fifth year. The second type are fixed rate bonds with a term of 15 years, coupon rate of 3.74 per cent. and an issue size of RMB8 billion, and the Bank is entitled to redeem such bonds at the end of the tenth year; and

- on 21 December 2021, the Macau Branch of the Bank issued U.S.$500,000,000 floating rate senior green notes due 2024 under the U.S.$15,000,000,000 medium term note programme established by the Bank and its Hong Kong Branch.

The Bank published the 2021 First Half Financial Statements on 27 August 2021 and the 2021 Third Quarter Financial Statements on 29 October 2021, respectively. Please see "*Selected Consolidated Financial Data*" section for more details.

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

Unless otherwise disclosed in this Offering Circular, there has not been any material change in the Bank's capitalisation and indebtedness since 30 June 2021.

DESCRIPTION OF THE BANK

OVERVIEW

The Bank is a leading commercial bank in China providing a comprehensive range of banking products and financial services. The Bank was incorporated as a joint stock company in the PRC on 17 September 2004 and its Unified Social Credit Code is 911100001000044477. The registered address of the Bank is No. 25, Finance Street, Xicheng District, Beijing 100033, China and its telephone number is +86 10 6621 5533. As at 30 June 2021, the Bank had 250,010,977,486 ordinary shares outstanding. Headquartered in Beijing, the Bank provides convenient and quality banking services to its customers through an extensive network comprised of nationwide branches, self-service facilities and an electronic banking service platform.

The Bank operates principally in mainland China with branches in all provinces, autonomous regions and municipalities directly under the central government, and several subsidiaries located in mainland China. The Bank's principal business activities include corporate banking, personal banking, treasury business and others. Within the Bank's corporate banking business, the Bank offers a broad range of products and services to corporations, government agencies and financial institutions, including corporate loans, trade financing, deposit taking and wealth management services, agency services, financial consulting and advisory services, cash management services, remittance and settlement services, custody services and guarantee services.

The Bank provides a broad range of personal banking products and services under well recognised brands, including personal loans, deposit taking and wealth management services, card business, remittance services and agency services. The Bank's treasury operations include inter-bank money market transactions and repurchase and resale transactions, and investments in debt securities. It also trades in derivatives and foreign currencies for its own account. The treasury carries out customer-driven derivatives, foreign currency and precious metal trading.

Leveraging its vast resources and geographic advantages in the Chinese domestic market, the Bank is committed to providing a world-wide banking and financial services platform to service the overseas banking needs of its domestic corporate and personal banking customers and the domestic banking needs of its overseas corporate and personal banking customers seeking to trade with or invest in China. The Group adheres to a positive and steady international operation and overseas development strategy, leading to a steady expansion of its overseas network. As at 30 June 2021, the Bank had a total of 14,656 operating entities, consisting of 14,622 domestic entities including the Head Office, 37 tier-one branches, 361 tier-two branches, 14,045 sub-branches, 177 outlets under the sub-branches and one specialised credit card centre at the Head Office, and 34 overseas institutions. The Bank had 19 major subsidiaries with a total of 592 entities, including 425 domestic ones and 167 overseas ones. The Group has more than 200 overseas entities, covering 30 countries and regions including Hong Kong, Singapore, Germany, South Africa, Japan, South Korea, the U.S., the U.K., Vietnam, Australia, Russia, the United Arab Emirates, Taiwan, Luxembourg, Macau, New Zealand, Canada, France, Netherlands, Spain, Italy, Switzerland, Brazil, Cayman Islands, Ireland, Chile, Indonesia, Malaysia, Poland and Kazakhstan, and maintained wholly-owned operating subsidiaries including CCB Asia, CCB London, CCB Russia, CCB Europe, CCB New Zealand, CCB Brasil and CCB Malaysia and held 60 per cent. of the total share capital of CCB Indonesia.

As at 30 June 2021, the Group's total assets, total liabilities and total equity were RMB29,833,188 million (including loans and advances to customers of RMB17,493,902 million), RMB27,370,847 million (including total deposits from customers of RMB22,317,969 million) and RMB2,462,341 million, respectively. For the year ended 31 December 2020, the Group's net interest income was RMB575,909 million, representing an increase of 7.23 per cent. over the same period in 2019 and the profit before tax was RMB336,616 million, representing an increase of 3.07 per cent. over the same period in 2019. For the six months ended 30 June 2021, the Group's net interest income was RMB296,085 million, representing an increase of 5.18 per cent. over the same period in 2020 and the profit before tax was RMB184,463 million, representing an increase of 9.30 per cent. over the same period in 2020. The NPL ratio of the Group as at 30 June 2021 was 1.53 per cent., representing a decrease of 0.03 percentage point as compared to the corresponding ratio as at 31 December 2020. As at 30 June 2021, the NPL ratio for domestic corporate loans and advances was 2.49 per cent., a decrease of 0.07 percentage point from 31 December 2020, and the NPL ratio for personal loans and advances was 0.39 per cent., a decrease of 0.02 percentage point from 31 December 2020.

As at 30 June 2021, the NPL ratio for overseas operations and subsidiaries was 1.71 per cent., representing a decrease by 0.24 percentage point from 31 December 2020. As at 30 June 2021, the Group's total capital ratio was 16.58 per cent. and Common Equity Tier 1 ratio was 13.23 per cent., representing a decrease of 0.48 per cent. and 0.39 per cent., respectively, as compared to the corresponding ratio as at 31 December 2020.

The Group adheres to a steady and prudent capital management strategy. It strengthens capital constraint and incentives and promotes intensive capital management to continuously enhance the efficiency of capital use. The Group relies both on internal capital accumulation and external capital replenishment, maintains a capital adequacy level that is constantly above the regulatory requirements, and outperforms its peers. In 2020, facing the impact of COVID-19, the Group gave full play to the role of capital in counter-cyclical adjustments and increased capital support for the prevention and control of COVID-19 and the recovery and development of the real economy. It continuously optimised the asset structure and encouraged the development of businesses with low capital occupation and high return on capital. It further pressed ahead with intensive capital management, used big data to further save capital, and reduced ineffective and inefficient capital occupation. It used market financing to replenish capital and issued U.S.$2 billion overseas Tier 2 capital bonds and RMB65 billion domestic capital bonds. It finalised the capital plan for 2021-2023 to make reasonable arrangements for medium-term capital sources and utilisation. In the first half of 2021, the Group gave full play to the role of capital in supporting the development of various businesses, reinforced the capital-centred planning evaluation mechanism, and strived to maintain the reasonable growth and optimise the structure of total risk-weighted assets. It further implemented intensive capital management measures, and improved the efficiency of capital use. It also actively prepared for the implementation of the final set of Basel III rules across the Bank.

The Group maintained a stable market position and its core indicators and market capitalisation continued to be in the leading position among its peers. The Group formulated the Transformation and Development Plan of China Construction Bank in 2014, which proposed to accelerate transformation towards a comprehensive banking group, multi-functional service, intensive development, an innovative bank and a smart bank. In accordance with the requirements of enhancing capability to serve national development, to prevent financial risks and to participate in international competition, the Group specified seven key points of transformation, including promoting operation and management of assets and liabilities on a consolidated basis, consolidating and developing wholesale business, accelerating the development of retail business, improving the quality of electronic banking business, enhancing asset management business for customers in an all-round way, strengthening the competitiveness of subsidiaries and accelerating the expansion of international business and overseas operations. By deepening reform of system and mechanism, strengthening risk management and control, enhancing IT support and big data usage capacity, the Group strives to build the best value creation bank.

In recent years, the Group, adhering to the New Finance Concept of inclusiveness, openness and sharing, took the lead in digital transformation, took digitalised operation as the breakthrough point to implement the "Three Major Strategies" of house rental, inclusive finance and FinTech, and developed a set of effective digital transformation methods with the Bank's characteristics according to the basic logic of "building ecologies, setting up scenarios and expanding user base".

In 2018, 2019, 2020 and 2021, the Group received numerous awards from various domestic and international institutions including the "Best Large-Scale Retail Bank 2018", the "Achievement in Comprehensive Risk Management Award 2018", the "Achievement in Comprehensive Risk Management Award 2019", the "Best Mega Trade Finance Bank in China 2019" and "Bank of the Year in China 2020" in Wealth and Society sector and "Custodian Bank of the Year in China 2020" from Singapore magazine The Asian Banker, the "Best Bank in China 2019" from The Asset, the "Best Bank in China 2018", "Best Private Bank in China 2019" and "Overall Best National Retail Bank in China 2020" from Asiamoney, the "Most Competitive Online Finance Bank 2019" and the "2020 Excellent Competitiveness RMB International Bank" from China Business Journal, the "Best Bank for Inclusive Finance Service of Golden Dragon Award 2018", "Best Fintech Innovation Bank 2019" and "Digital Operation Bank of the Year 2020" from Financial News, "Most Influential Bank" and "Innovative Mobile Banking" in 2019 from Sina Finance, the "Best Inclusive Finance Performance Award" and the "Best Social Responsibility Practice Award" in 2019 and "Best Targeted Poverty Alleviation Contribution Award" in 2020 from the China Banking Association, "Best Bank in China 2018" from UK magazine The Banker, the "Most Innovative Bank for Trade Finance of the World" in 2018 and the "Best Bank for Cross-Border Trade" in 2020 from Global Finance, the "Asian Risk Management Awards for Excellence 2018" from 21st Century Business Herald, the "Best Financial Innovation Award 2018" from The Chinese Banker magazine, "The Bank of the Highest Investment Value" in 2018 from Sina Finance, the "Grand Prize of the Bank Technology Development Award" by the PBOC in 2018, "Digital Economy Sailing Award 2020" from Securities Daily, the "Best Board of Directors" from Directors & Boards and "China's Outstanding Group in Eradicating Poverty" by the State Council in 2021. The Group ranked second in UK magazine The Banker's "Top 1000 World Banks" in 2018, 2019 and 2020, ranked 31st in the "Fortune Global 500" of the US magazine Fortune in 2018 and 2019 and ranked 30th in the same in 2020, and ranked third in the "Top 50 Most Valuable Management Award in China" in 2019 by Interbrand. In addition, the Group won numerous awards from major domestic and foreign media organisations for its achievements in fields including corporate governance, corporate social responsibility, risk management, corporate credit, retail business, investment custodial business, underwriting of debt securities, credit card business, housing finance and information technology.

OVERVIEW OF CHINA'S BANKING INDUSTRY

In 2018, the CBIRC took a series of robust measures to redress market irregularities and internet finance risks, and restore proper order in the financial markets. With the implementation of the Guiding Opinions on Regulating the Asset Management Business of Financial Institutions and detailed rules, commercial banks accelerated their pace in setting up wealth management subsidiaries and a new paradigm in the asset management sector began to take shape. The release of policies for promoting capital instrument innovations in the banking sector enabled the industry to move forward steadily with more diversified capital replenishment channels. China's banking industry continued to grow in scale, as the overall credit quality remained stable, the overall market liquidity remained solid and the industry's capability to mitigate risks continued to improve.

In 2019, domestic regulators continued to promote supply-side structural reform in the financial sector to prevent and mitigate financial risks, improve the management level of banking sector, and enhance the soundness of banking system. Total assets of banking sector grew steadily with stable liquidity and credit quality, and sufficient capacity to mitigate risks.

In 2020, the global economy fell into a deep recession in the wake of COVID-19, and developed economies introduced extremely loose monetary policies and massive fiscal stimulus programmes. China coordinated the prevention and control of COVID-19 and the economic and social development, and its economic performance recovered steadily, making it the only major economy in the world achieving positive economic growth. Its consumption and investments recovered steadily, exports gained strong momentum, and international payments were balanced. China's GDP and consumer price index increased by 2.3 per cent. and 2.5 per cent. year on year respectively. Financial markets were stable and the money market was active with stable interest rates. The bond issuance and cash bond trading volume also increased, and the stock market index rebounded, with transaction volume and funds raised increasing year on year. Domestic regulators formulated numerous policies and measures to promote smooth financing channels, pressed ahead with the transformation of asset management businesses, accelerated the disposal of non-performing assets, and consolidated the capital foundation of banks. The interest spread of the banking sector narrowed, and the income from interest margin declined, bringing pressure on profitability. The rapid development of FinTech drove the digital transformation of the banking sector. Total assets of the sector grew steadily with stable liquidity and credit quality, and sufficient capacity to mitigate risks.

In the first half of 2021, the global economy continued to recover, though with growing divergence. Major developed economies continued to maintain monetary easing policies, while a few emerging economies began to raise interest rates in response to pressure such as inflation, capital outflows and currency depreciation. China continued to consolidate its achievements in COVID-19 prevention and control as well as economic and social development, and its economic development maintained an overall stable and upward trend. Domestic consumption gradually improved, investment continued to recover, and the growth of import and export trades remained favourable. In the first half of 2021, China's gross domestic product and consumer price index rose by 12.7 per cent. and 0.5 per cent. from the same period last year, respectively.

Domestic regulators carefully coordinated the relationship between economic recovery and risk prevention, placed greater importance on serving the real economy, and the banking industry maintained a good momentum of stable operation. The banking industry continuously enhanced its financial services with steady growth of total assets, basically stable credit asset quality, continued profit growth, relatively strong risk mitigation ability and steady liquidity.

The Group stayed committed to prudent operations and innovation driven development, focused on serving the real economy, and continued to enhance internal control over risks to deliver solid results. In the first half of 2021, the Group enhanced the quality and efficiency in serving the real economy, and achieved new progress in its high-quality development. The Group's total assets and liabilities steadily increased.

THE BANK'S COMPETITIVE STRENGTHS

The Bank believes its strengths, as set out below, provide a stable and effective platform through which it will be able to maintain its competitive advantage in China's banking industry:

Large Customer Base and Established Relationships

The Bank has a quality corporate customer base and large personal banking customer base. The Group continued to expand its customer base. As at 30 June 2021, the number of personal online banking customers and corporate online banking customers increased by 3.03 per cent. and 5.00 per cent. respectively, as compared to 31 December 2020. As at 30 June 2021, the number of private banking customers increased to 175,610, representing an increase of 9.21 per cent. compared to the year ended 31 December 2020, and the amount of such private banking customers' assets under management with the Bank amounted to RMB1.93 trillion, representing an increase of 8.45 per cent. as compared to 31 December 2020.

Extensive Distribution Network and a Diversified Service Channel

The Bank has an extensive distribution network. Through its branches, customer self-service equipment, specialised service entities across the country and an electronic banking service platform, the Bank provides customers with convenient and high-quality banking services. As at 30 June 2021, the Bank had a total of 14,656 operating entities, consisting of 14,622 domestic entities including the Head Office, 37 tier-one branches, 361 tier-two branches, 14,045 sub-branches, 177 outlets under sub-branches and one specialised credit card centre at the Head Office and 34 overseas institutions. As at 30

June 2021, the Bank had 19 major subsidiaries with a total of 592 entities, including 425 domestic ones and 167 overseas ones. As at 30 June 2021, the Bank had set up 250 inclusive finance (small business) service centres and small business centres, and built over 1,800 personal loan centres. The Bank also continued to streamline its self-service network, which comprised 73,065 ATMs and 24,831 self-service banks, including 10,683 off-premise self-service banks. As at the same date, the Bank also had 48,549 smart teller machines, supporting both retail and corporate banking services. The Bank's extensive distribution network and diversified service channels provide it with the competitive measures and resources for sustainable development.

Leading Positions in Key Products and Services, Pioneering New Product and Service Development and Implementing Fintech Strategy

To be in line with the Bank's objective of establishing an "innovative bank", the Bank continuously improves its product innovation capability, vigorously supporting transformation and development. In 2018, the Bank organised the "Inaugural Innovation Marathon" and increased efforts in innovation to further deepen the "Three Major Strategies" of house rental, inclusive finance and FinTech, while exploring the options for building a long-term CCB-specific innovation and incubation mechanism. Through the "Benevolence Religious Affairs" comprehensive service platform, the Bank provides one-stop comprehensive services in relation to religious affairs. "Jianrongzhihe", an AI-assisted comprehensive service platform for business matchmaking among enterprises, has created a new model for business development. The blockchain trade finance platform has enabled the online end-to-end processing of domestic letters of credit, forfeiting, international factoring and logistics finance. The end-to-end support system for the underwriting and distribution of bonds enables the Bank to further strengthen its enterprise-level management and systemic end-to-end management and control of bond underwriting and distribution business. The Bank launched the "Cloud Tax Loan" to connect with the tax data systems of the State Taxation Administration and provincial tax authorities, enabling the Bank to more accurately match its products and services with the demands of small and micro enterprises and entrepreneurs and more accurately manage their risks. The "Long Fortune" personal wealth management platform created a new retail model by integrating financial and technological resources. Family offices have been created as part of its private banking business to provide comprehensive services for customers with assets of over RMB500 million, including family wealth management and inheritance, family governance, family business management on a going concern basis and social charity. A young customer service system had been put in place to attract young customers.

In 2019, focusing on creating an environment of innovation for all employees, the Bank continued to actively promote the "Inaugural Innovation Marathon", the building of a crowd-creation platform and the construction of a product pedigree to optimise the management mechanism and strengthen management foundation. In 2020, the Bank implemented 47 strategic product innovation projects of the Head Office and completed 79 key innovation projects of the Head Office, 1,664 independent innovation projects of branches and 15 product innovation projects of subsidiaries, improving the quantity and quality of innovation.

The Bank carried out innovation of merger and acquisition ("**M&A**") loans, supported the economic transformation and upgrading as well as the resolution of overcapacity, and improved its capability to support enterprise M&A. The Bank integrated its resources to push forward comprehensive financial service schemes for strategic group clients, offering comprehensive financial service solutions tailored for them. The Bank initiated service mode innovation of bank medical cards, establishing a more mature mode that was able to meet customers' needs with existing technical conditions. Based upon big data technology, the Bank launched "Xinyidai" for small and micro businesses, refining the small and micro businesses big data credit product system. The Bank offered cross-bank smart money collection and integrated cross-bank money collection channels, smoothing the process as well as presenting various choices of signing and authorising. By introducing the "Suixinyong" application, the Bank realised functions such as over-the-air issuing, off-line card transaction, inquiring, electronic cash recharging and industry application recharging, featuring convenient card activation and secure transaction. The Bank formulated comprehensive service solutions to housing reform finance and initiated new operations for provident housing fund loans, providing one-stop services for individual housing loan of housing provident fund (combined) customers. The Bank launched Long Card Cloud QuickPass to migrate the security management function of mobile payment from mobile hardware to Cloud platform, realising quick and secure mobile payment of simulated IC cards. The Bank launched market member bond lending, carrying forward bond lending transactions with market members. The Bank presented three brands comprising "Jiandantong, Jianpiaotong and Jianxintong", to provide financing services for companies contracted with foreign projects as well as those exporting whole set equipment. The Bank introduced WeChat-based "E Shenche" and "E Jiesuan" to adapt to the fast-growing Internet financial needs, and strengthened the Group's internal cooperation by collaborating with CCB Pension to provide an all-round solution for pension insurance fund business. As at 30 June 2021, the Bank's official WeChat account "CCB Customer Service" has cumulatively served over 57.11 million customers.

As part of the "Three Major Strategies", the Bank has been actively exploring the comprehensive house rental financial solutions, to implement the positioning of "Houses are for living in, not for speculation" and help people realise their dreams of having a home. In 2018, the Bank launched the house leasing cloud platform to increase the supply of long-term housing units from governments and enterprises, becoming China's largest transparent house leasing service platform. The Bank built "Jianrong Jiayuan" community for long-term house leasing. At the end of June 2021, the Group's comprehensive house rental service platform covered 96 per cent. administrative regions at prefecture-level or above across the country, providing a transparent trading platform for 14 thousand enterprises and 37 million individual landlords and tenants. More than 10 million verified houses and apartments and 6 million contracts had been filed with the platform on a cumulative basis, which also provided the government with an effective tool for market supervision. The Bank has also established CCB Housing Services, the first housing service company in the banking industry, to facilitate the building of house leasing market, and is the first to launch house leasing price indices. The Bank is committed to building a smart ecosystem to create greater social empowerment. Anchoring on its house leasing service platform, the Bank has established platforms for smart community services, senior care, and public education, and connected these platforms to empower the public and deliver combining financial and non-financial services.

In 2018, the Bank took the lead in making inclusive finance a bank-wide strategy, made comprehensive arrangements, and formulated a three-year plan for the inclusive finance strategy. It leveraged fintech to build inclusive finance with "CCB features" while adhering to the innovation-driven development strategy. For example, the Bank launched the "Huidongni" app as a one-stop service platform for small and micro enterprises. It used internal and external data to accurately align its products and services with the customer needs, formed a new type of bank-enterprise communication mode to realise the bilateral interaction between the Bank and its customers, and enhanced customers' sense of gaining in comprehensive service experience. By the end of June 2021, the application had attracted over 130 million online user visits and been downloaded more than 17 million times. It had over 5.56 million certified enterprises and more than 1 million credit customers. Over 700 billion loans had been granted to borrowers via the application. The Bank released "CCB – Xinhua Inclusive Finance – Small and Micro Enterprise Index", the first inclusive financial index and evaluation index in the banking industry that has gained national influence.

Further, in 2018, the Bank issued its FinTech strategic plan, aiming at promoting the reform of Fintech innovation system, implementing Fintech to improve the management of operation security, so as to boost business innovation and development. The Bank promoted the implementation of Fintech strategy, constructed a dual-driven Fintech foundation of technology and data, and created a Fintech business system that promoted the combination of smart finance and smart ecosystem. The Bank also established CCB Fintech Co., Ltd. as the Bank enhanced efforts in making Fintech a driving force. The Bank strengthened the establishment of platforms and application of business scenarios for new technologies, such as AI, big data and blockchain, built a collaborative integrated R&D platform and an enterprise-level R&D ecosystem, and promoted the transformation of Fintech R&D model.

In 2019, the Bank continued to increase investment in Fintech innovation and has further unleashed Fintech efficiency, with coordinated efforts in research and development, infrastructure construction and system operation and maintenance. Centering on intelligent government service platform, the Bank has established platforms for the benevolence religious affairs services, senior care, party and masses services, and smart government services. It focused on supporting the application, research and development of smart finance related technologies, and enhanced disaster recovery and cloud infrastructure environment construction, to ensure the safe and stable operation of the system. The Bank sped up the establishment of its efficient and collaborative Fintech governance system that supported innovation, and improved the incentive system for Fintech innovation by strengthening patent protection and promoting independent innovation. It built a cloud platform for Fintech innovation service that provided all-round support for innovation with functions such as AI modelling and financial data mining. In addition, the Bank built panoramic customer profiling, optimised data asset management, and enhanced data driven value creation. It also built an integrated collaborative research and development platform to achieve flexible, efficient, digital and automated collaborative research and development management.

The Bank developed collaborative and evolutionary smart finance internally. It realised centralised control of supply chain services, formed a unified view of supply chain relations and supply chain financial business at group level, and promoted the development of new corporate banking featuring "seamless integration of trading business and emerging business". The Bank promoted groupwide intelligent operation system construction, and built "multi-access and integrated" smart channels. It broke through the information barrier between its corporate banking and personal banking, and established a "comprehensive, intelligent, accurate, timely, proactive and forward-looking" risk control system. The Bank extended the open and shared intelligent ecosystem externally. It promoted the construction of the data centralisation platform for provident housing funds and the rural land use right transfer platform of the Ministry of Housing and Urban-Rural Development, and continued to build its edge in the housing arena. The Bank preliminarily set up a Fintech product system for financial institutions, expanding its offerings from banking sector to non-banking services. The Bank assisted in the sharing of financing information within the banking industry through projects such as joint credit granting led by China Banking Association. The Bank took sole lead among its peers in launching the "Government Affairs Service Platform for a Smart City", building a bridge from root-level population to government customers, and creating a "prototype" for electronic government affairs services.

The Group further pressed ahead with FinTech strategy in 2020 and continued to optimise its FinTech governance system and promote in-depth development of FinTech strategy in 2021. The support capacity of AI technology was established, with 507 AI scenarios as at 30 June 2021 covering areas such as customer service, risk management, centralised operation, and smart government affairs service. The support capacity of application of big data played an important role in the digitalised operation. It further improved the layout of blockchain and expanded the application and innovation of blockchain technology in areas such as cross-border trade, smart government affairs, and supply chain service. The Group developed an autonomic computer vision algorithm suitable for small edge computing devices, supported realtime video analysis scenarios in fields such as security and compliance by connecting with IoT, and innovated the application of AI + satellite remote sensing technology to agriculture-related loans. The blockchain service platform realised cloud-based service supply, adapted to various blockchain underlying technology frameworks, supported cross-chain interconnection of heterogeneous architecture, and established relatively complete capability in underlying management and application support of blockchain, which was applied in more than 30 scenarios including 12 business areas such as trade finance, cross-border payments, smart government affairs, and housing rental.

In addition, the Group formed a flexible, agile and cloud-oriented financial infrastructure supply capacity based on "CCB Cloud", and provided cloud services support for 401 applications in nine areas including government affairs, housing, financial institutions, and livelihood, outperforming its domestic peers in terms of overall scale and service capacity. It enabled largescale cloud-based resource supply through the big data platform, and significantly enhanced the capacity in massive data processing and real-time computing. It further upgraded the data lake technology and migrated all business data to the data lake to provide more abundant data resources and data processing modes for business development. It managed and shared the Group's data as assets, to support digitalised operation, group-level integration and other big data scenarios. It built an applet-based open ecology for mass development through the mobile internet platform. It continued to build special IoT network, which connected with over one million Internet of Things (IoT) terminals and supported 26 IoT applications including data collection by event tracking for digitalised operation, 5G smart banking, intelligent security, operation and distribution and CCB Yunongtong.

In 2020, the Group's FinTech investments were RMB22,109 million, an increase of 25.38 per cent. over 2019, accounting for 3.10 per cent. of the operating income. The Bank's subsidiary, CCB Fintech Co., Ltd., introduced three strategic investors for capital injection and share issuance and its valuation rose to RMB10 billion after capital injection. As at 30 June 2021, the Group had been granted an aggregate amount of 606 patents, including 389 invention patents, giving it a leading position in terms of invention patents in the domestic banking industry and the number of FinTech personnel of the Group was 14,012, accounting for 3.79 per cent. of its total headcount.

Advanced Financial Management Capabilities and Financial Controls

The Bank is one of the first domestic banks to establish a resource allocation and performance evaluation assessment system on the basis of an economic value-added approach. The Bank has further centralised its financial management and promoted an overall cost control system, while increasing the Bank's research efforts on strategic cost management. In addition, the Bank followed the successful experience of leading global banks and developed an internal fund transfer pricing ("**FTP**") system, an enterprise resource planning ("**ERP**") system and a management accounting system.

The Bank believes that its advanced financial management capabilities and sound financial controls have allowed the Bank to implement development strategies effectively, optimise resource allocation and improve overall operating efficiency.

Effective Strategic Co-operation

The Bank's strategic investor, Temasek Holdings (Private) Limited, has shared its experience with the Bank in relation to SMEs' business operation, human resource management, money market trading and other areas. The Bank has cooperated with Bank of America Corporation, in a number of areas including personal banking business, risk management, corporate governance, information technology and human resources.

Environmental Protection

The Bank actively promoted green development initiatives. Firstly, the Bank proactively participated in cooperation on green finance. The Bank has led the Special Committee for Green Credit of China Banking Association since 2018, helping the domestic banking industry to promote the development of green credit business. It was among the first to join the "Green Investment Principles for the Belt and Road Initiative". Secondly, the Bank strove to promote the development of green finance, and made active contributions to reducing greenhouse gas emissions. The Bank increased its green credit, continued to promote business development in its traditional areas of strength including green transportation and green energy, and actively expanded new green areas. It proactively expanded its energy efficiency credit business, and sped up the promotion of green credit products such as "energy conservation loan", "carbon finance", "construction loans for sponge cities" and "construction loans for comprehensive utility tunnels".

Experienced Management Team, Vocational Education Model and Remuneration Policy

The Bank's Chairman, Mr. Tian Guoli, and the Bank's vice chairman and president, Mr. Wang Jiang and other senior management team members, have extensive management experience in the banking and financial sector in China. Under their leadership, the Bank's operations have further strengthened in recent years. For the years ended 31 December 2018, 2019 and 2020, and for the six months ended 30 June 2020 and 2021, the Group's return on average assets[1] were 1.13 per cent., 1.11 per cent., 1.02 per cent., 1.05 per cent. and 1.06 per cent., respectively. For the years ended 31 December 2018, 2019 and 2020, and for the six months ended 30 June 2020 and 2021, the Group's return on average equity were 14.04 per cent., 13.18 per cent., 12.12 per cent., 12.65 per cent. and 13.10 per cent., respectively.

To enhance financial innovation in vocational education model, the Bank has established the CCB University in 2018. In 2020, the Bank held training sessions in its various campuses covering 781,000 employees. The Bank held live training via the network platform of CCB University, and over 6 million employees participated in the online learning. The Bank also organised job-related examinations, which covered all 37 domestic tier-one branches, involving over 253,000 participants. The Bank makes full use of remuneration allocation to motivate its employees. In order to encourage value creation, it continues to favour sub-branch level, front-line and direct value creation posts in terms of remuneration increase and grants allowance for outlets employee, in order to stimulate the enthusiasm of frontline employees to create greater value and improve the Bank's profitability.

THE BANK'S PRINCIPAL BUSINESS ACTIVITIES

The Bank's principal businesses activities include corporate banking, personal banking, treasury business and others.

The following tables set forth, for the periods indicated, the profit before tax of each of the Bank's major business segments:

	Year ended 31 December 2018		Year ended 31 December 2019		Year ended 31 December 2020		Six months ended 30 June 2020		Six months ended 30 June 2021	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(In millions of RMB, except percentages)									
Corporate banking	74,168	24.07	72,694	22.26	66,615	19.79	32,425	19.21	33,873	18.36
Personal banking	139,734	45.34	148,642	45.51	206,047	61.21	95,742	56.73	116,685	63.26
Treasury business	84,735	27.50	91,693	28.08	55,915	16.61	40,799	24.17	21,662	11.74
Others	9,523	3.09	13,568	4.15	8,039	2.39	(193)	(0.11)	12,243	6.64
Profit before tax	**308,160**	**100.00**	**326,597**	**100.00**	**336,616**	**100.00**	**168,773**	**100.00**	**184,463**	**100.00**

CORPORATE BANKING

Overview

For the years ended 31 December 2018, 2019 and 2020, and for the six months ended 30 June 2020 and 2021, the Group's corporate banking operations represented 24.07 per cent., 22.26 per cent., 19.79 per cent., 19.21 per cent. and 18.36 per cent., respectively, of its profit before tax. The Bank offers a broad range of corporate banking products and services for corporations, government agencies and financial institutions. As at 30 June 2021, the Group had RMB9,267,153 million of domestic corporate loans and advances, representing 51.29 per cent. of the Group's gross loans and advances excluding accrued interest, RMB241,305 million of domestic discounted bills outstanding, representing 1.34 per cent. of the Group's gross loans and advances excluding accrued interest, and RMB10,407,702 million of domestic corporate deposits, representing 46.63 per cent. of the Group's total deposits from customers.

Key Products and Services

Corporate loans products

Corporate loans have historically been the largest component of the Group's loan portfolio. As at 30 June 2021, the balance of domestic corporate loans and advances amounted to RMB9,267,153 million, representing an increase of 10.85 per cent. compared to 31 December 2020. The Group's corporate loan

1 Adjusted by dividing net profit by the average of total assets at the beginning and end of the year.

products mainly comprise medium to long-term loans and short-term loans. As at 30 June 2021, the Group's domestic medium to long-term loans and short-term loans amounted to RMB6,512,833 million and RMB2,754,320 million, representing 35.97 per cent. and 15.21 per cent., respectively, of the Group's gross loans and advances to customers.

Infrastructure loans

The Bank provides various infrastructure loan products to meet the funding requirements relating to the construction and expansion of its customers' infrastructure projects. The continuing expansion of the PRC economy has led to an increase in the number of new large-scale infrastructure projects which have resulted in an increased demand for infrastructure loans. As at 30 June 2021, loans to infrastructure sectors amounted to RMB4.83 trillion, representing an increase of RMB497,723 million compared to 31 December 2020.

Working capital loans

The Bank offers working capital loans primarily to provide liquidity for the Bank's customers' regular business production and operational turnover needs and for their temporary funding needs. The Bank's working capital loans are mainly granted to its high-quality customers to supplement their infrastructure loans. The Bank also provides working capital loans to SMEs.

Syndicated loans

The Bank has provided to customers various syndicated loan products including, among others, direct external syndicated loans, internal syndicated loans and transferable syndicated loan products. The Bank has maintained strong growth in its syndicated loan businesses.

Other corporate loan products

The Bank offers various other corporate loan products, including trade finance facilities, supply-chain financing, M&A financing and property development loans. In March 2009, the Bank became one of the first commercial banks in China approved to undertake M&A financing business pursuant to the Guidelines to M&A Loan Risk Management of Commercial Banks issued by the previously-named China Banking Regulatory Commission (now called the CBIRC) and the Bank was one of the first to launch corporate M&A financing products aimed to facilitate the financing needs of the Bank's customers' M&A transactions by providing a comprehensive set of financial resources. As at 30 June 2021, the Group had provided 56,000 enterprises in more than 3,700 industrial chains with a total of RMB380,000 million online supply chain financing support on a cumulative basis. The property development loans were RMB502,075 million, an increase of RMB29,347 million over the end of 2020.

The expansion of loans to SMEs is an important measure of the Bank to realise its strategic transformation of corporate banking business. As at 30 June 2021, the inclusive finance loans amounted to RMB1.71 trillion, an increase of RMB288,382 million as compared to 31 December 2020; the number of inclusive finance loan borrowers reached 1,801,800, an increase of 106,300 as compared to 31 December 2020. The agriculture-related loans increased by RMB224,305 million over 2020 to RMB2.31 trillion, and the number of agriculture-related loans borrowers was 2,184,200 with an average interest rate of agriculture-related loans was 4.69 per cent. As at 30 June 2021, the balance of green loans of the Bank was RMB1,570 billion, representing an increase of RMB223,601 million as compared to 31 December 2020.

Discounted bills

Discounted bills are bank acceptance bills and commercial acceptance bills with a remaining maturity of less than six months purchased by the Bank from its customers at a discount. The Bank provides discounted bills as part of its comprehensive financing solution for its corporate customers. As at 30 June 2021, the Group had outstanding domestic discounted bills of RMB241,305 million, a decrease of RMB17,756 million compared to 31 December 2020.

Corporate deposit products

In accordance with interest rate policies issued by the PBOC, the Bank offers a variety of time and demand deposit products to its corporate and institutional customers. In addition, the Bank also accepts negotiated deposits from customers including insurance companies, the National Social Security Fund and the Postal Savings Bank of China, whereby interest rates and other conditions can be separately negotiated. As at 30 June 2021, the Group's domestic corporate deposits amounted to RMB10,407,702 million, an increase of 7.30 per cent. compared to 31 December 2020.

Commission/fee based products and services

The Bank provides its corporate customers with a broad range of commission/fee-based products and services. The Group's net fee and commission income for the year ended 31 December 2020 was RMB114,582 million, which is an increase of 3.32 per cent. compared to the same period last year. The Group's net fee and commission income for the six months ended 30 June 2021 was RMB69,438 million, which is an increase of 6.82 per cent. compared to the same period last year.

Agency services

The Bank acts as an agent at the request of its clients in providing payment disbursement, collection, settlement, clearance and other agency services to corporations and government agencies. The key products and services the Bank provides include agency treasury settlement, agency premium collection and payment and entrusted loans. The Bank also acts as payroll agent as well as the agent to collect utilities, telecommunication and taxes payment and surcharges. In addition, in terms of the number of budget units it served, the volume of agency disbursement and related fee income, the Bank continued to be the market leader. The Bank is a major correspondent bank for China Development Bank. The Bank also distributes products and services on behalf of insurance companies and securities firms and provides payment and fee collection services to public utility and telecommunications companies. In addition, the Bank provides entrusted lending services to its corporate customers. The Bank charges a fee for providing entrusted lending services and does not take the credit risk with respect to these loans. In addition to generating fee income, the Bank's agency services also help the Bank develop and enhance its relationships with its customers.

Institutional business

The Bank has promoted its updated "Minben Tongda" comprehensive financial services brand, which focuses on providing service to customers in the education, health, culture and environmental protection sectors. The Bank comprehensively deepened its digitalised and platform-based operation, innovatively built and promoted 13 institutional business social service platforms including "CCB Smart Campus Application", "CCB Smart Healthcare Application" and "CCB Rural Collective Assets Management", and built diversified scenarios to assist in solving issues facing governments, society and people's livelihood. For two consecutive years, the Bank was awarded the double first prize in the comprehensive assessment of two agency services, namely, the national treasury centralised payment business and non-tax revenue collection business of the "MOF". The Bank sponsored the China "Internet +" College Students Innovation and Entrepreneurship Competition for six consecutive years, benefiting nearly 10 million college students. The Bank has also explored "Internet Plus" applications and innovations in financial services for schools and hospitals, which culminated in the Bank-Hospital and Bank-School Mobile Internet Financial Cooperation Plan. The Bank is the first among its peers to research on and launch the Comprehensive Financial Service Plan Regarding Pension System Reform of Public Institutions, expanding its social security product offerings. The Bank was the first among its peers to introduce the electronic social security card, exclusively launched the "Smart City Government Services Platform" and pioneered the "Integrated Religious Affairs Management Platform". The Bank exclusively participated in the Ministry of Finance's "House of Officials" pilot, created an ecosystem of civil servants, and participated in the establishment of a national financing guarantee fund aimed at solving financing problems faced by small and micro businesses and in the agriculture sector.

The Bank supported the modernisation of state governance system and governance capacity with its innovative smart government affairs service, to enable the development of digital government, digital society and digital economy. By the end of June 2021, the Bank had established cooperative relationships with 28 provincial governments, and participated in the construction of the national service platform for government affairs, and many other platforms or scenarios related to the CBIRC, the Beijing-Tianjin-Hebei region as well as "Internet + Government Affairs Service" and "Internet + Supervision" in 13 provincial and 10 municipal governments. The total number of registered users of the online platform reached 160 million, and the total number of government affairs handled reached more than 1.7 billion. The Bank actively explored the model for constructing a "cross-provincial" government affairs service platform, and coordinated its 14 thousand outlets to provide government affairs services, where one could handle, make appointments for and inquire about more than 4,600 government affairs items. By innovatively building the designated smart teller machine (STM) service zone for "cross-provincial" government affairs, the Bank built "government service lobbies for the public" at 35 branches, which can provide services related to 436 government affairs items.

The Bank built platforms for the supervision of rural collective assets management, the rural property transactions and the smart village affairs, focused on making smart government affairs services more accessible for rural residents, and supported the implementation of the "Internet + Governance at Community Level" initiative. The Bank used "CCB Smart Campus" platform to provide over ten thousand schools and thousands of teachers and students with digital campus learning and life service scenarios, created an "educational service fund supervision platform" to meet national policies and public needs, and helped government, businesses and communities to empower social development. Centred on the "fully online medical services", the "CCB Smart Healthcare" platform enhanced the medical efficiency and service levels for hundreds of medical and healthcare institutions, making it easier for the public to seek treatment or manage their health. The Bank created scenarios for nucleic acid testing appointment payment and COVID-19 vaccination appointment to help the government to improve its public health care services.

International business

The Bank offers international settlement products and services including import letters of credit, export letters of credit, import collection, export collection, outward remittance, inward remittance and guarantees. The Bank has been approved by the PBOC as the Hong Kong dollar settlement bank and approved by the China Foreign Exchange Trade System as the U.S. dollar agency settlement bank in the interbank foreign currency markets. The Bank was one of the first PRC banks to provide cross-border trade RMB settlement services and this pioneer status has allowed it to be one of the market leaders of this service.

In 2015, the Bank successfully issued RMB1 billion offshore RMB bonds in London, which was the first RMB bond product listed on the London Stock Exchange. In 2016, the Bank further expanded its RMB clearing network, as the Bank became the RMB clearing bank in Switzerland and Chile after becoming the RMB clearing bank in London. These cross-border RMB operations performed well, with the Bank's three RMB clearing branches in London, Switzerland and Chile showing steady development. RMB Qualified Foreign Institutional Investors ("**RQFII**"), RMB Qualified Domestic Institutional Investors and Mainland-Hong Kong mutual recognition of funds operations continued to grow. The Bank took the lead in establishing a blockchain trade finance platform in the industry and the Bank's AI-assisted documents review project became the first successful application of its kind in the industry. It also innovated "cross-border e-payment", an online payment tool and met e-commerce customers' needs for cross-border payment through virtual bank cards.

The Bank provides growing support for foreign trade customers and actively assists in the establishment of a new development pattern of dual circulation where domestic and foreign markets can boost each other. In recent years, the Group deepened cooperation with China Export & Credit Insurance Corporation, and the amount of insurance policy financing in the first half of 2021 increased by 111.28 per cent. from the same period last year. The cumulative transaction amount of forfaiting exceeded

RMB370 billion, while more than RMB15 billion loans were granted through the "Cross-border Quick Loan" series to nearly 10,000 customers. As one of the first batch of banks directly linked to China International Trade "Single Window", the Group launched over 10 online financial service functions, maintaining a leading position among peers. It made overall use of products and services such as international syndicate, cross-border merger and acquisition and export credit, and provided all-round financial support and financing facilities for the Belt and Road construction with solutions that combined financing with intelligence.

In 2021, the Bank accelerated the innovation and development of key green finance products, clarified the recognition criteria for green letters of credit, and took the green industry as a key area to develop the trade finance business such as international factoring. Trade finance business meeting the PBOC's recognition criteria for green credit amounted to RMB20,331 million. The Bank focused on green topics and used the "CCB Match Plus" platform to hold several cross-border connection activities such as "Promote ESG, Embrace Green Finance" of Sino-UK New Energy-Webinar.

The Bank vigorously develops cross-border RMB business to promote the RMB internationalisation strategy. In the first half of 2021, the Bank's cross-border RMB settlement volume reached RMB1.28 trillion. It supported the development of offshore RMB market, and its three RMB clearing banks in the UK, Switzerland and Chile operated steadily. Specifically, CCB London Branch continued to be the largest RMB clearing bank outside Asia, with a cumulative clearing amount of over RMB57 trillion.

Asset Custody service

The Bank's offering of asset custodial services is among the most comprehensive in China, including securities investment funds, Qualified Domestic Institutional Investors, Qualified Foreign Institutional Investors, RQFII, social security funds, corporate annuity funds, trust properties, insurance assets, entrusted investment assets of securities companies, basic pension insurance personal account funds, industrial investment funds and banking wealth management products. In 2013, the Bank obtained the qualification to provide custodial service to the first bond index exchange-traded funds ("**ETF**") and cross-border ETF for U.S. stocks in the PRC. The Bank also became one of the first Chinese-funded custodial banks of RQFII from Singapore. The Bank became one of the first batches of banks to conduct agency business for Mainland-Hong Kong mutual recognition of funds operations and was the first to offer "bond transaction plus custodian" services to overseas institutions for direct entry into the interbank bond market.

The Bank actively leveraged its strengths in custody service to support national strategy, promoted business innovation, strengthened risk control, and achieved high-quality development of asset custody business. The Bank provided custody service to the Belt and Road Initiative construction projects of the state-owned asset management platform, actively engaged in the ETF project for reform of Sichuan state-owned enterprises, and facilitated insurance funds investment in the construction of important national infrastructure such as highways and bridges. The number of funds in the Science and Technology Innovation Board ("**STAR Market**") under custody of the Bank and the winning rate of its bidding for enterprise annuity custody service for central government-owned enterprises were both higher than those of its peers. It was also one of the first banks to provide custody services to cross-border conversion brokers of the global depository receipt and to funds under the China-Japan ETF Connectivity scheme.

In addition, the Bank cultivated the brand of "CCB SMART Custody" to promote high-quality custody service, and successfully became custodian for the National Green Development Funds and the Industrial Investment Funds for Beijing-Tianjin-Hebei Coordinated Development.

As at 30 June 2021, the Bank's assets under custody amounted to RMB16.79 trillion, increased by RMB1.54 trillion from 31 December 2020. For the year ended 31 December 2020, the Bank's fee income from custody service was RMB5,533 million, increased by RMB841 million compared to the year ended 31 December 2019. For the six months ended 30 June 2021, the Bank's fee income from custody service was RMB3,848 million, increased by RMB757 million compared to the same period last year.

Settlement and cash management business

The Bank was one of the first domestic commercial banks to provide cash management services for its corporate clients. In recent years, the Bank's cash management services expanded rapidly as the Bank introduced various new cash management products, providing services including account settlement services, fees receipt and payment services, liquidity management services, investment and financing management services, information and reporting services, industry-focused solutions and online banking services. The Bank has a range of cash management products and tailor-made industry specific cash management solutions for multinational corporations, large and medium sized enterprises, government agencies and financial institutions. The Bank's settlement and cash management business continued to grow steadily. The Bank launched its innovative "Huishibao – comprehensive service platform for high-end corporate settlement" and built "Jianguanyi", a multi-level fund supervision model, to meet treasury management needs of customers in specialised markets, fund supervision and other areas. In addition, through its internet and other electronic channels, as well as its customer-oriented branch network, the Bank has been able to provide comprehensive cash management services to its customers. The Bank's electronic bill business has also developed rapidly, and the electronic tax payment service brought more convenience to customers.

In 2019, as the PBOC's approval is no longer required for the opening of corporate bank accounts, the Bank created "Zhangyixing" brand to improve the convenience and efficiency of account opening service, and the number of corporate RMB accounts grew rapidly. The Bank also enhanced its management over corporate settlement accounts as well as payment and settlement, and carefully prevented new types of cybercrimes. It accelerated the mobile deployment in services such as "Yudaotongda", collection and payment of bills, and iteratively upgraded its global cash management product system, continuously improving the contribution of cash management to the Bank.

The Bank practiced the concept of "payment for the people" and strived to improve the quality and efficiency of corporate settlement account services. It promoted the scenario-based application of key products, innovated the first "Professional Employment Platform" among domestic peers, strived to build the "Fund Supervision Plus" service ecosystem, upgraded the C-community consumption scenario services of "Huishibao", and comprehensively enhanced its capability to serve the national strategy and the real economy as well as to improve people's livelihood. The Bank actively pressed ahead with pilot projects of integrating RMB and foreign currency account systems, upgraded the global cash management service system and launched SWIFT-AMH (Alliance Message Hub) services for several large and medium-sized multinational enterprise groups, continuously enhancing the integrated operation capacity of domestic and foreign currencies and further advanced the digitalised operation of services to long-tail corporate customers. It also took advantage of new opportunities in digital economy and vigorously expanded e-CNY agency business. The Bank was among the first to participate in the trial of digital currencies research and development, and according to the overall arrangement of the PBOC, steadily promoted the research and development and pilot projects of e-CNY. The Bank develops the CCB e-CNY system and e-CNY wallet system, including Personal Wallet, Corporate Wallet, Soft Wallet, Hard Wallet, Parent Wallet, Subsidiary Wallet, etc., and supports the provision of exchange and circulation services of e-CNY. The Bank also actively participated in the e-CNY pilot tests in Shenzhen, Suzhou, Xiongan New Area and other places, and created various scenarios for the use of e-CNY, such as one-click payment of salary, tax payment, medical payment, ticket payment, etc. The Bank explored innovation of application mode, cooperated with e-commerce platforms such as Jingdong and E.ccb.com as well as investment and financial institutions such as Tiantian Fund to realize e-CNY online payment and investment scenarios. The Bank expanded the application of offline scenarios to realize e-CNY payment by NFC (Near Field Communication) and Hardware wallet in a network free environment. By the end of June 2021, the bank's digital currencies pilot scenarios covered living expenses, catering services, transportation, shopping consumption, education fees, government services and other fields. As at 30 June 2021, more than 7.23 million Personal Wallets and more than 1.19 million Corporate Wallets were opened, with a cumulative number of 28.45 million transactions and a transaction value of about RMB18.9 billion.

As at 30 June 2021, the Bank had 11,863,600 corporate RMB settlement accounts, an increase of 404,800 over the end of 2020, while its active cash management customers increased by 171,700 to 1,847,800 from the same period of 2020.

Customer Base

As a leading provider of capital for some of the key industries in China such as infrastructure, energy, transportation and telecommunication, the Bank has maintained close relationships with leading corporations in industries that are strategically important to China's economy and with major government agencies and financial institutions.

The Bank has focused and will continue to focus on customers in industries strategically important to China's economy. Most of these large companies in China's strategic industries are state-owned enterprises or state-controlled joint stock companies. As at 30 June 2021, loans to strategic emerging industries were RMB767,760 million, an increase of 24.73 per cent. compared to 31 December 2020.

Private enterprises have become important customers to the Bank, as in recent years, they have experienced significant growth in China and have become a major sector in China's economy. As at 30 June 2021, loans to private enterprises were RMB3.22 trillion, an increase of 11.52 per cent. compared to 31 December 2020. The Bank also focuses on expanding its range of high-quality SME customers.

Marketing

Based on its customer-focused philosophy, the Bank employs both industry-wide and localised marketing strategies tailored to specific regions, customers and products. The Head Office formulates its overall corporate business development based on industry, geographical region, customer and product considerations. The Bank's tier-one branches then develop detailed marketing plans according to these guidelines tailored to local market needs.

The Bank's corporate banking marketing channel primarily involves corporate and institutional customer managers, branch outlets and electronic banking channels which include online banking and phone-banking. The Bank's corporate and institutional customer managers are its key marketing channel for its corporate banking business. They are responsible for exploring new market opportunities, promoting the Bank's banking products, coordinating and accessing the Bank's bank-wide resources to provide a package of personalised and comprehensive financial services to the Bank's corporate and institutional customers. The Bank's branch outlets offer the physical venue for the Bank to provide services to corporate and institutional customers. Through the Bank's branch outlets, the Bank promotes and sells its products, mainly providing payment and settlement services and SME corporate customer services, and developing the Bank's corporate liabilities business and commission/fee based business.

With the aim to improve customer experience, the Bank also provides its customers with e-banking channels such as the Bank's cash management service system, corporate online banking, customer hotline service centre and mobile phone banking platform, thereby providing greater access for the Bank's customers. The Bank's e-commerce finance platform, which provides corporate clients with financing products such as order financing, guaranteed joint loans and collateralised loans, continued to deepen its involvement in causes relating to "agriculture, farmers and rural areas", promoted the use of credit card bonus points for direct shopping and air ticket booking for business travel, thus realising a rapid development.

As at 30 June 2021, the number of personal online banking users increased to 383 million, representing an increase of 3.03 per cent. from 31 December 2020, and the Group's corporate online banking customers reached 10.80 million, representing an increase of 5.00 per cent. compared to 31 December 2020.

The Bank further strengthened innovation for its mobile banking, developed online sales, diversified online functions and delivered smarter and smoother experience. It launched the "ETC Intelligent Mobility" service to facilitate ETC user's application, sign up, activation and query online. Account information could be automatically recognised once the user scanned the bank card, simplifying the transfer processes for customers. The Bank introduced government services, such as social security and provident housing fund services, to provide more convenience. As at 30 June 2021, the number of personal mobile banking users rose to 403 million, an increase of 14.91 million or 3.84 per cent. compared to 31 December 2020. WeChat banking became a key platform for the Bank's business processing, consulting and marketing. As at 30 June 2021, the number of WeChat banking users who followed the Bank's WeChat account increased by 8.27 million or 6.92 per cent. to 128 million compared to 31 December 2020. As at 30 June 2021, the number of SMS financial service users reached 503 million, an increase of 9 million or 1.89 per cent. compared to 31 December 2020.

The Bank seeks to provide differentiated products and services to the Bank's important customers to meet their specific banking needs. The Head Office generally coordinates client coverage and marketing efforts for the Bank's largest corporate customers to ensure consistency and quality of service. The Bank's senior management at the headquarters and branch level are often directly involved in and lead in these marketing efforts. The Bank's branches in major cities provide differentiated, high quality, professional and integrated products and services to meet the Bank's customers' specific banking needs. By providing integrated financial solutions to the Bank's customers and improving the Bank's cross-selling synergies among the Bank's products and services, the Bank aims to further increase overall customer satisfaction and optimise value for the Bank's customers.

For SMEs, the Bank has established a specialised and standard marketing system that allows the Bank to further integrate the Bank's resources of products, distribution channels and brands to provide more efficient services with controlled risks.

PERSONAL BANKING

Overview

As at 30 June 2021, the Group's domestic personal deposits rose to RMB11,173,783 million, an increase of 9.71 per cent. compared to 31 December 2020. The Group's profit before tax derived from personal banking for the years ended 31 December 2018, 2019 and 2020, and for the six months ended 30 June 2020 and 2021 amounted to RMB139,734 million, RMB148,642 million, RMB206,047 million, RMB95,742 million and RMB116,685 million, respectively, representing 45.34 per cent., 45.51 per cent., 61.21 per cent., 56.73 per cent. and 63.26 per cent. of the Group's total profit before tax for the same periods.

Key Products and Services

The Bank provides a broad range of products and services including personal deposits, personal loans and other related financial services for its personal banking customers based on their needs. The Bank also provides bank card services and private banking for its personal banking customers. The Bank is committed to providing comprehensive banking services to its personal banking customers and is focused on creating and improving its personal banking product chain and value chain. The Bank sets out below its key personal banking products and services.

Personal deposits

The Bank provides its personal banking customers with a broad range of demand and time deposit services denominated in Renminbi and other foreign currencies. Personal demand deposit products include demand savings deposits and demand pledged deposits.

Personal time deposit products include time savings deposits, education savings deposits and personal notification deposits. Personal deposits provide the Bank with a stable funding source. The Bank enhanced its capability to attract deposits through highly effective products and services, maintaining the steady growth of personal deposits. As at 30 June 2021, domestic personal deposits of the Bank were RMB11,173,783 million, an increase of 9.71 per cent. from 31 December 2020.

Personal loans

The Bank's personal loans are designed to meet the credit requirements of its personal customers. The Bank's personal loan products include residential mortgages, credit card loans, personal consumer loans, personal business loans and other loans. As at 30 June 2021, the total domestic personal loans of the Bank amounted to RMB7,529,011 million, representing an increase of 4.08 per cent. from 31 December 2020. As at 30 June 2021, the NPL ratio for domestic personal loans and advances was 0.39 per cent., a decrease of 0.02 percentage point from 31 December 2020.

Residential mortgage loans

The Bank provides residential mortgages to individuals to finance the purchase and construction of their residential properties. Residential mortgages include new home residential mortgages, residential refinancing mortgages, home equity loans to refinance residential property and fixed-rate residential mortgages. As at 30 June 2021, the Group's personal residential mortgages rose by 4.72 per cent. from 31 December 2020 to RMB6,105,839 million.

The Bank appraises the value of the residential property regularly and clearly stipulates that the loan cannot be used for securities trading purpose.

Home savings services

In February 2004, the Bank formed Sino-German Bausparkasse Co., Ltd. ("**Sino-German Bausparkasse**") with Bausparkasse Schwaebisch Hall, a German home savings bank. As at 30 June 2021, the Bank held a 75.10 per cent. equity interest in Sino-German Bausparkasse. The Bank's home savings bank products allow the Bank's customers to make scheduled deposits for the purpose of obtaining residential mortgage loans in the future. Sino-German Bausparkasse has improved the Bank's ability to develop more personal housing financing products. Sino-German Bausparkasse achieved steady business development, and the sales of housing savings products reached RMB32,179 million for the year ended 31 December 2020 and RMB10,128 million for the six months ended 30 June 2021. As at 30 June 2021, total assets of Sino-German Bausparkasse were RMB28,380 million, and shareholders' equity was RMB3,054 million. Net profit for the year ended 31 December 2020 was RMB62 million and net profit for the six months ended 30 June 2021 was RMB44 million.

Personal consumer loans

The Bank's personal consumer loans primarily consist of personal credit lines and automobile loans which usually have a maturity of up to five years. Personal credit lines are granted for general purposes based on the borrowers' credit history and the value of collateral provided. The Bank's automobile loans are primarily secured by the purchased automobile and residential properties. As at 30 June 2021, the Bank had domestic personal consumer loans of RMB227,838 million, representing 1.26 per cent. of the Group's gross loans and advances to customers.

Other personal loans

The Bank's other personal loan products primarily consist of credit card loans and personal business loans for private business owners involved in various specialised markets, personal agriculture-related loans to farmers on a trial basis in line with the PRC government's policy of supporting economic development of rural areas and other loans including educational loans. The Bank has also continued its offering of personal loan products, including the "Easy Education Loan" for personal education, the "Fortune Loan" for personal banking customers, differentiated credit, personal business loans, the "Hexing loans" for core enterprises upstream and downstream private owner business assistance loans, the "Refurbishment Loan" for home renovations and the "ShanRong loans" personal micro-credit revolving loans for consumption financing needs. The Bank also promoted business development with its self-service personal loans "Quick Loan" online channel. As at 30 June 2021, the balance of self-service loans via "Quick Loans" was RMB203,491 million, a decrease of RMB42,936 million, or 17.42 per cent. over the end of 2020, serving tens of millions of customers.

Bank card business

The Bank offers a variety of bank card products comprising credit card and debit card to its customers under the registered "Long Card" ("龍卡") brand. As at 30 June 2021, the Bank had issued approximately 146 million credit cards and the number of debit cards in use was 1,226 million. For the year ended 31 December 2020, the Group's fee and commission income from bank card fees decreased to RMB21,374 million from RMB24,025 million for the year ended 31 December 2019, representing a decrease of 11.03 per cent. For the six months ended 30 June 2021, the Group's fee and commission income from bank card fees decreased to RMB10,443 million from RMB10,483 million for the same period in 2020, representing a decrease of 0.38 per cent.

Since the Bank is a member of China Unionpay, its customers can complete transactions through ATMs and point-of-sale terminals connected to the China Unionpay network. China Unionpay is responsible for establishing and operating a nationwide, interbank bank card information exchange and transaction network for its members. The Bank is one of the founding members of China Unionpay. The Bank joined the MasterCard network in 1990 and the Visa network in 1991. The Bank's dual-currency debit cards and dual-currency credit cards are also accepted outside of China through its association with the MasterCard and Visa networks. In August 2009, the Bank further joined the JCB international credit card network.

Credit cards

Through the credit card centre in Shanghai established in December 2002, which centrally manages the Bank's credit card business, the Bank seeks to enhance its operational efficiency, improve its risk management and maintain a consistent level of customer service quality. The Bank has also established credit card departments in most of its tier-one branches to manage its operations locally. As approved by the previously-named China Banking Regulatory Commission (now called the CBIRC) and accepted by the Shanghai Banking Regulatory Bureau in 2008, the Bank's credit card centre was upgraded to a branch-level sales institution and obtained its business license in 2009. As at 30 June 2021, the Bank had issued approximately 144 million credit cards. The volume at credit card transactions totalled RMB3.05 trillion for the year ended 31 December 2020 and the volume at credit card transactions totalled RMB1.50 trillion for the six months ended 30 June 2021. As at 30 June 2021, the Bank's credit card loan balance reached RMB839,412 million.

The Bank's credit cards are accepted through its own network and through the China Unionpay network which are located in the PRC and various other countries and are also accepted overseas through the Bank's association with the Visa and MasterCard networks. The Bank continues to improve its credit card business structure and steadily enhance its service capabilities. It actively expands its young customer base and high-quality customers, make every effort to develop customers for agency salary payment services, and offered a number of new products, such as JOY Card, Bonus Card, MUSE Card and Long Card Credit (Daiba) virtual card, further improving the quality and activeness of customers.

The Bank also issues diamond cards, which target high-end customers and issued specialised car-owner credit cards to car owners. The Bank has also launched consumer products including e-Pay Long Card, Tencent e-Pay Long Card, and Family Love Card, credit products such as "Fenqitong", and mobile payment services based on the Internet including Apple Pay, HCE Cloud Pay, and Samsung Pay. The Bank has increased its use of new electronic channels such as mobile phone, WeChat and QR codes to promote the use of its credit card products. The Bank has introduced the Long Card electronic payment wallet and "one-click payment" for cross-border internet purchases. The Bank has also introduced the "Mobile Long Card" mobile app allowing payments to be made with authorised merchants.

In 2019, the credit card business achieved rapid and sound development as the Bank implemented differentiated operating models for each region. The Bank actively promoted the innovation of its products for targeted customer bases such as young people, car owners and consumers shopping overseas. It introduced a range of products, such as QQ Music Card, Feichi Changxing Long Card, and Joy Card and issued more than 2.2 million virtual credit card "Long Card Credit (Daiba)", which can be applied and issued online instantly. It actively promoted marketing for ETC, with more than 20 million credit card customers contracting for ETC service. It strengthened credit card-based mobile payment and payment innovation, and accelerated scenario-based deployment with merchants by launching more than one hundred innovative industry applications at the intelligent POS platform. It comprehensively improved its risk control and compliance management capability, optimised its risk strategies and differentiated credit approval system, strictly implemented regulatory requirements and strengthened the control of the use of funds.

The Bank focused on target customers, enhanced the model automation operation capability, strengthened the building of online and offline scenarios, and comprehensively enhanced its digitalised operation capability. The Bank further built the scenario ecology, accelerated the building of three types of business areas, namely airports and high-speed rail stations, urban commercial complexes, and gas stations, by offering favourable interest rates, explored consumption scenarios welcomed by consumers, cooperated with leading companies such as Alipay, TikTok, Baidu, JD and Meituan on joint promotion, card payment and bonus points conversion to help expand domestic demand and promote consumption upgrade. The Bank strived to improve the living standards of the public, increased the support in auto consumption, and provided services to nearly 800,000 car owners in 2020. The Bank launched the "CCB Home Improvement Festival" as a one-stop application platform, and granted loan installment for housing decoration to 420,000 families in 2020. The Bank continued to improve the anti-fraud models and strategies, enhanced merchant risk monitoring and continuously improved its risk control and compliance management capability.

In the first half of 2021, the Bank innovatively used ideas and methods of digitalised operation to strengthen the refined management of credit card business. It launched the "Leader" credit card in its Transformers series, and fully upgraded the benefits and services for bilibili credit card, "My love" Family Card and other "Long" cards, creating competitive popular products. It cooperated with more than 30 leading merchants to build the "Long Credit Card Discounts 666" marketing brand. It stepped up instalment loans innovation, and promoted instalment loans for new energy vehicles. The Bank also pressed ahead with the building of business circles. It applied online authentication tools such as facial recognition, optical character recognition, online identity verification to enhance its anti-fraud capability online, and strengthened the active detection of suspected inflows of credit card funds into real estate, investment, production and operation sectors and cash out activities, to improve proactive intelligent risk management.

Debit cards

The Bank continuously improved the functions and services of debit card products to promote the activity of debit card transactions, continuously pressed ahead with the PBOC's mobile payment demonstration project to provide convenience service, and upgraded the "Long Pay" products and user management. As at 30 June 2021, the number of debit cards in use was 1,226 million, including 680 million financial IC debit cards. The transaction volume of debit cards in the first half of 2021 was RMB12.85 trillion. The cumulative number of users of the "Long Pay" products was 173 million.

Private Banking

The Bank provides a broad range private banking products and services and integrated solutions and to its high value customers, including family trust financial advisory services, asset allocation consultancy services, investment immigration, marital property preservation and family wealth inheritance. The Bank has developed its family trust business by coordinating efforts between the parent company and subsidiaries, and continuously improved the "Golden Housekeeper" comprehensive cash management business. The Bank has diversified its value-added services in three major areas, namely asset management, alternative financing and non-financial value-adding services. Drawing on Fintech, the Bank led the market in creating its mobile private bank and launching a mobile version of its private banking services "CCB e-private banking", promoting the building of benchmark private banking centres. Also, the Bank built a product system designed to "help customers structure their assets", and vigorously promoted its wealth advisory services. Additionally, the Bank launched the innovative service of Family Office.

The Bank focused on meeting the needs of high-net-worth customers for their wealth management, assets allocation and quality services by constantly improving professional capabilities, and maintained a good development momentum. Adhering to the perspective of customers and focusing on wealth management, the Bank improved the professional service system of wealth planning, assets allocation, and legal and tax consulting, and innovated and customised family wealth management services such as fully entrusted asset management and family funds, and consolidated its leading position in family trust advisory business among peers, with assets under management reaching RMB41,812 million. The Bank published professional reports on topics such as macro strategy analysis and legal and tax affairs, and held high-level salons such as family wealth forum. The Bank provided customers with customised services, enhanced customer trust, improved the integrated online and offline operation, optimised the layout of the private banking centres, and built a digital application system for private banking, all of which helping to improve customer experience. As at 30 June 2021, private banking customers' assets under management reached RMB1.93 trillion, representing an increase of 8.45 per cent. as compared to 31 December 2020 and the number of private banking customers amounted to 175,610, representing an increase of 14,816 or 9.21 per cent. as compared to 31 December 2020.

Entrusted housing financing services

The Bank acts as an agent to national housing fund management departments to collect housing provident funds and housing maintenance funds and provide individual housing provident funds mortgages. The Bank is one of the earliest banks and the largest in China approved to engage in the housing provident fund management business. The Bank maintains sound business co-operation with local administrative centres of housing provident funds across China from which it takes deposits as a steady funding source. By implementing national policies on supporting the construction of homes and providing financing to mid-and low-income households, the Bank is able to capture such specialised market opportunities. The Bank has proactively improved its IT system and strengthened electronic channel expansion and product innovation in provident housing funds, in order to provide comprehensive and high-quality housing reform financial services. The Bank applied the "technology + internet" strategy to actively improve the service of the technology system of its entrusted housing finance business. Through innovative financial services, the Bank has launched new products and services including small amount cross-bank payments for housing provident funds, housing provident fund e-channel, housing provident fund co-named card and entrusted housing provident fund withdrawal for repayment of loans, while steadily developing its indemnificatory housing loans business and supporting low-and middle-income residents' housing needs for their own residential purposes.

The Bank improved financial service support by relying on FinTech to help the country use national housing funds for the prevention and control of COVID-19 and people's livelihood. In line with the reforms to streamline administration, delegate powers, and improve regulation and services, the Bank pressed ahead with data sharing of the national housing and construction system, continuously optimised business processes, and improved customer service capabilities. As at 30 June 2021, the balance of housing fund deposits was RMB1.01 trillion, and the balance of personal provident housing fund loans was RMB2.69 trillion. The Bank had cumulatively provided RMB117,283 million personal indemnificatory housing loans to nearly 600,000 low- and middle-income households as at 30 June 2021.

Marketing

The Head Office generally formulates marketing initiatives and sets marketing guidelines for the Bank's bank-wide personal banking products. The Bank's tier-one branches develop detailed marketing plans to implement these initiatives based on the economic and market conditions of their respective geographical regions. The Bank conducts its marketing activities mainly through its branch network, which the Bank supplements with specialised sales centres for specific products such as personal wealth management centres and residential mortgage loan centres. It also conducts personal banking product marketing through e-banking channels, such as online banking, telephone banking and mobile phone banking.

The Bank offers different products and services and adopts different marketing strategies to cater for different customer groups' needs. For high value customers, the Bank focuses on building a one-to-one customer manager marketing relationship to develop a more focused marketing strategy for promoting its products. For mass market customers, the Bank adopts a mass marketing strategy focusing on its outlets, taking initiatives in product and service marketing through introduction by its lobby managers, on-site promotion of its products and media advertising campaigns. The Bank also adopts an interactive marketing strategy for its personal banking business, whereby its personal loan department and corporate banking department cooperate to take a proactive approach in exploring business opportunities in residential mortgages while granting real estate development loans. In addition, the Bank focuses on cross-selling its personal banking products such as promoting its credit cards and wealth management cards to its residential mortgages customers. The Bank also sells various loan products to the holders of its wealth management cards and credit cards.

Electronic Channels

In 2019 and 2020, the Bank strengthened its Fintech innovation and application, shifted from channel-based services to customer-focused operations, and built a brand new "online banking". In this regard, the channels' value contribution was comprehensively improved and the capability of customer services was greatly enhanced. In the first half of 2021, the Bank accelerated the pace of digital transformation of online financial services, and pressed ahead with the data-driven decision-making management, the agile adjustment of business mechanism, the intelligent restructuring of business model, the collaborative construction of ecosystem and the technology-enabled risk prevention and control, to further promote the high-quality development of online financial business.

As at 30 June 2021, the Bank's personal online banking service had 383 million individual customers, representing an increase of 3.03 per cent. compared to 31 December 2020 and the number of corporate online banking users increased to 10.80 million, an increase of 5.00 per cent. compared to 31 December 2020. For the year ended 31 December 2020, the electronic banking service fees earned by the Bank was RMB29,007 million compared to RMB25,666 million for the year ended 31 December 2019, representing an increase of 13.02 per cent. For the six months ended 30 June 2021, the electronic banking service fees earned by the Bank was RMB14,429 million compared to RMB14,308 million for the same period in 2020, representing an increase of 0.85 per cent.

TREASURY BUSINESS

The Bank's treasury business primarily consists of its money market activities, the management of its investment portfolio, treasury transactions on behalf of its customers, bond underwriting and development of treasury products. The Group's treasury business recorded a profit before tax of RMB55,915 million for the year ended 31 December 2020, accounting for 16.61 per cent. of its total profit before tax. The Group's treasury business recorded a profit before tax of RMB21,662 million for the six months ended 30 June 2021, accounting for 11.74 per cent. of its total profit before tax.

Key products and services

Money market activities

The Bank's money market activities primarily consist of (i) repurchase and reverse repurchase with the PBOC; (ii) borrowings from and loans to other domestic and foreign banks and non-bank financial institutions, often referred to as the interbank money market activities; (iii) purchase of securities under resale agreements, often referred to as repurchase and reverse repurchase transactions via the interbank market, bond repurchase pledge or buy-out, sell-out of RMB-denominated treasury bonds, policy bank bonds and central bank bonds; and (iv) money market transactions with major international banks such as foreign currency fund lending, foreign currency denominated bond repurchase, foreign exchange swap and debt-for-equity swaps on the international financial markets.

The Bank is an active participant in the interbank money market, one of the first market-makers in the interbank market and one of the sixteen Shanghai Interbank Offered Rate quotation banks approved by the PBOC. The Bank has actively responded to market fluctuations, taken initiatives to broaden the financing and investment channels, and managed its RMB and foreign currency positions in a centralised manner to safeguard the Bank's liquidity. The Bank actively participated in the reform of InterBank Offered Rates (IBOR) and was among the best in the interbank Foreign Currency Lending (FCL) Quoting Banks. With regard to its foreign currency money market business, the Bank tracked the monetary policies of US Federal Reserve and market trends to improve the yields of its foreign currency funds and its market influence; it actively innovated domestic third-party foreign currency repurchase business, and successfully issued the Bank's first foreign currency interbank certificates of deposits in the domestic market.

As at 30 June 2021, the Group's deposits and placements with banks and non-bank financial institutions amounted to RMB799,641 million, representing 2.68 per cent. of the Group's total assets. As at the same date, the deposits and placements from banks and non-bank financial institutions with the Group amounted to RMB2,145,210 million, representing 7.84 per cent. of the Group's total liabilities.

As at 30 June 2021, the total contractual amount in terms of framework agreements of debt-for-equity swaps of the Group is RMB913,596 million, maintaining a leading position in the industry.

Investment portfolio management

The Bank's investment portfolio mainly targets bond investment. The Bank classifies its portfolio as: (i) financial assets measured at fair value through profit or loss, (ii) financial assets measured at amortised cost and (iii) financial assets measured at fair value through other comprehensive income. The Bank achieved a reasonable balance between liquidity, security and returns on debt securities investments. With regard to investment in RMB debt securities, the Bank adheres to the principle of value-driven investment, actively serving the real economy, managing a reasonable pace of investment, continuously improving the portfolio structure, and strengthening the business collaboration between the Head Office and branches, in order to maximise returns for the whole bank. With regard to investment in foreign-currency debt securities, the Bank adjusted the portfolio structure with close attention to trends in the global financial markets, and increased the portfolio returns under the premise of ensuring the liquidity of foreign-currency portfolios. As at 30 June 2021, financial assets measured at fair value through profit or loss, financial assets measured at amortised cost and financial assets measured at fair value through other comprehensive income represented 7.96 per cent., 64.98 per cent. and 27.06 per cent. of the Group's financial investment portfolio, respectively.

Proprietary trading

The Bank conducts short-term proprietary trading in order to gain short-term spread income and avoid market risk. Proprietary trading mainly includes treasury bonds, central bank notes, policy bank bonds, short-term debentures issued by large-scale prime enterprises, mid-term notes, foreign exchange trading and precious metal trading. Additionally, the Bank hedges its investment risk through financial derivative trading, which mainly includes interest rate swap contracts and foreign exchange spot, forward, swap and option contracts. Apart from hedging of its risks, the Bank generally does not hold financial derivatives for short-term gain.

Proprietary investment

The Bank manages its investment portfolio to maximise its investment return. The Bank determines the average investment term of its investment portfolio, duration and investment return objective based on its judgment on risk factors such as interest rates, exchange rates and credit risks. The Bank's RMB-denominated securities investments primarily include government bonds, central bank notes, policy financial bonds, commercial bank bonds, short-term debentures, corporate bonds and asset-backed securities. The Bank's foreign currency denominated securities investments are primarily in sovereign bonds, financial institution bonds, corporate bonds and investment grade asset-backed securities.

Treasury transactions on behalf of customers

The Bank's treasury transactions on behalf of its customers mainly include agency foreign exchange derivatives trading, agency precious metal business, bond settlement agency business, agency sale and purchase of foreign exchange and foreign exchange trading. Foreign exchange purchases and sales and foreign exchange trading grew steadily. The Bank improved its service capability of foreign exchange settlement and sales through electronic banking channel, and launched its foreign exchange purchasing project. The Bank also optimised its corporate online banking foreign exchange settlement module for the convenience of its corporate customers.

The Bank steadily promoted the high-quality development of its customer-based trading business. It consolidated its customer base, actively expanded its overseas institutional investors base, with a steadily increasing number of customers. The Bank fully seized the development opportunity of RMB interest rate liberalisation, actively pressed ahead with the product innovation of interest rate derivative business in order to meet the diversified needs of customers. The Bank successfully launched the "Blue Core Exchange Rate Portfolio Management Platform", taking the lead among its peers in terms of system autonomy and comprehensive function.

In the first half of 2021, the Bank steadily carried forward the high-quality development of its customer-based trading business, and further strengthened its IT system construction. It promoted the concept of risk neutrality, consolidated customer base, implemented tiered customer services, actively met the trading needs of foreign institutional investors, and strengthened management and control of the business risk. It successfully introduced the "Quick Transaction for Micro and Small Enterprises" transaction function as well as other modules. In the first half of 2021, the customer-based trading volume amounted to US$297.5 billion, the volume of foreign exchange interbank market-making transactions reached US$2.49 trillion, and the Bank remained a top market maker.

Precious metals and commodities

The Bank realised sound development of the precious metals and commodities business in compliance with regulations. It introduced gold fixed accumulation plan and new trading categories such as apple, naphtha and PX, and increased commodity hedging categories to 35. It actively supported the demand of medical and safety supplies manufacturers for hedging the price of raw materials by reducing their hedging costs, and helped enterprises to resume work and production. It strengthened digitalised operation and improved customer experience. It closely followed market changes and strengthened the protection of consumers' rights and interests. For the year ended 31 December 2020, the total trading volume of precious metals of the Bank reached 118,000 tonnes. For the six months ended 30 June 2021, the total trading volume of precious metals of the Bank reached 40,300 tonnes.

Innovation and development of treasury products

The Group carried out platform-based operation, and continuously explored new, intelligent and ecological modes for inclusive finance to comprehensively improve the coverage, availability and satisfaction of inclusive finance services. It diversified the digital product system, realised the rapid customisation of new products on demand, and launched a series of products with new pattern, such as "Quick Loan for Small and Micro Businesses", "Yunong Quick Loan", "Quick Loan for Transactions" and "Quick Loan for Personal Business". As at 30 June 2021, loans granted by the Group had exceeded RMB4.7 trillion, benefiting more than 2.10 million customers. It continued promoted "Huidongni", "Huizhuni", and "Huidiantong" service platforms and the "three-in-one" inclusive finance operation and management platform. It also promoted digitalised precision marketing, and implemented digitalised and end-to-end refined risk control, to safeguard the high-quality development of inclusive finance business. The Bank pressed ahead with poverty alleviation through e-commerce based on e.ccb.com and established various poverty alleviation pavilions in cooperation with local governments and state-owned enterprises. As at 30 June 2021, the poverty alleviation transaction volume on "e.ccb.com" amounted to RMB6,911 million, covering poverty alleviation merchants in poverty-stricken counties nationwide.

In order to effectively address financing difficulties for customers engaged in international trade, the Bank continuously improves it product offerings, including conversion of overseas loans to debt securities, export credit, cross-border e+ and cross-border financing, and global financing for financial leasing, incorporating a host of innovation in business processes and risk mitigations. The Bank also continuously improves its service offerings, such as "Bond Connect", direct top-up for IC cards and Subways Go Easy, and simplified the financial service processes and enhanced customer experience by means of technology development and interconnectivity.

Asset management

The Bank has designed and launched various wealth management products according to customer needs to provide wealth management services to customers. The Bank has widened its wealth management product distribution channels and increased its distribution of high yield debt and equity wealth management products. These wealth management products play an important role in securing the Bank's customers, particularly high-end customers. NAMeS, the Bank's new asset management system, went live to form an integrated end-to-end automated framework. The Bank also launched its innovative "Qianyuan" wealth management product and launched its robo-advisor services.

In 2019, the Bank set up the Assets Management Business Committee to coordinate the high-quality development of Group-level assets management business. The first phase of "Mega Assets Manager" system was launched smoothly. CCB Wealth Management became the first wealth management subsidiary of commercial banks in China. In recent years, the Bank continued to promote the building of a new system for asset management at the group level, strengthened key activities such as assets allocation, channel sales, investment research and investment operation, FinTech, and risk management. It accelerated asset management business model transformation and innovation and strove to build the Bank's third pillar of business development.

For the years ended 31 December 2018, 2019 and 2020, and for the six months ended 30 June 2020 and 2021, the Bank issued various wealth management products with a total amount of RMB7,519,123 million, RMB7,771,813 million, RMB7,132,244 million, RMB3,545,729 million and RMB2,579,222 million, respectively. As at 30 June 2021, the Bank's outstanding balance from wealth management products was RMB999,560 million compared to RMB1,637,264 million as at 31 December 2020.

INVESTMENT BANKING BUSINESS

The Bank conducts investment banking business through the investment banking department at the Head Office and branch levels as well as its subsidiary, CCB International Capital Limited, providing customers with financial service packages such as short-term debentures, international bonds, trust benefit vouchers, asset securitisation, project financing, outbound initial public offerings ("**IPOs**") and refinancing, equity investment, financial advisory and wealth management services. The Bank's substantial customer base, extensive marketing network, strong funding capability and research and development strength lay a foundation for the development of its investment banking business.

Key products and services

Financial advisory service

The Bank's financial advisory business refers to its provision of consultation, analysis and solution design services to customers in respect of investment and financing, capital operation, asset management, debt management and corporate diagnosis based on the customers' requirements with an aim to assist them in reducing financing cost, increasing funding utilisation efficiency and optimising financial management. Furthermore, the Bank focused on providing its customers with product portfolios consisting of both investment banking and commercial banking products. In 2009, the Bank took the industry lead in launching FITS (Financial Total Solutions), a comprehensive financial solution also known as "Feichi". Depending on different situations and financial needs, FITS combines products and vehicles such as traditional commercial banking, new investment banking, various funds and bank wealth management programmes in order to provide comprehensive and diversified financial services plans. In 2020, the Bank completed the improvement and upgrade of the ecosystem of "FITS® 6+1" smart investment banking, pressed ahead with inclusive finance by providing free access to intelligent financial advisory service system named "FITS® e Intelligent" for 19,000 small- and micro-sized enterprises.

Equity financing service

Through CCB International and the Bank's overseas branches and subsidiaries, the Bank provides enterprises with equity financing services such as listing sponsorship and underwriting services for their overseas capital markets IPOs and refinancing services and strategic investor introduction services in Hong Kong and Singapore. The Bank also cooperates with the Bank's business partners, including domestic and overseas securities companies to provide equity financing related services, such as domestic and overseas listing guidance, sponsorship, underwriting and financial advisory services.

Bond financing service

The Bank provides composite bond financing services for clients including short-term debentures, and mid-term notes. The Bank is an active underwriter in the domestic bond market and it is also a Class A underwriter in the MOF treasury bond underwriting syndicate. For the year ended 31 December 2020, the Bank accumulatively underwrote 851 issuance of debt financing instruments with the underwriting volume of debt securities of the Bank for enterprises of the real economy with a total amount of RMB532,200 million. For the six months ended 30 June 2021, the Bank accumulatively underwrote 396 issuance of debt financing instruments with the underwriting volume of debt securities of the Bank for enterprises of the real economy with a total amount of RMB260,700 million. As part of its continuous efforts in promoting green economy, the Bank also developed green asset-backed notes and green asset securitisation, becoming the first underwriter in the green finance reform zone. The Bank also promoted the issuance of the first green building panda bond, doubling as green "Bond Connect" bond, in the inter-bank market, and it issued RMB10.8 billion green bonds and sustainability bonds for enterprises in the first half of 2021.

Asset securitisation

The Bank was among the first commercial banks approved to undertake asset securitisation business. In 2005, the Bank issued the first residential mortgage-backed securities in China with a size of RMB3.0 billion. The Bank has developed a specialised information system for its securitisation products and the Bank has extensive experience in the development of securitisation products and the execution of such transactions. In 2018, the Bank actively cooperated with the NDRC to jointly promote and establish the National Development Fund for Strategic Industries.

For the year ended 31 December 2020, the Bank's underwriting volume of asset-backed notes reached RMB57,154 million, ranking first in the market. It completed the issuance of RMB71.4 billion of corporate credit asset-backed securities, issued the first RMB50 billion inclusive finance products of online quick loan asset-backed securities in the market, and issued RMB9,342 million asset-backed notes relating to reverse factoring supply chain, thereby collectively providing funds for 5,360 upstream small-and micro-sized customers. The Bank raised a total of RMB24,345 million for the strategic emerging industry fund, participated in the establishment of the National Green Development Fund by investing RMB8 billion and underwrote RMB4.4 billion green credit asset-backed securities.

In the first half of 2021, the size of asset securitisation business was RMB18,710 million. It issued six batches of trust beneficial right transfer products of corporate loans credit assets, amounting to RMB26,871 million. In the first half of 2021, the Bank's income from investment banking reached RMB5,562 million. It had a total number of over 60,000 customers, of which exceeding 57,000 were inclusive customers. It provided over RMB400 billion direct financing for enterprises.

Customer base

The Bank's prime corporate and personal customers from its commercial banking business have formed a solid customer base for developing its investment banking business through the years. Most domestic PRC conglomerates and top-quality corporates have established extensive and close business relationships with the Bank. The Bank believes that there remains potential for its investment banking business in the areas of bond financing, equity financing, asset securitisation, financial advisory, wealth management and trust services. The Bank also proactively strives to provide equity financing and equity investment services to SMEs that present promising growth. The Bank's personal banking customers, especially its high net worth and high-end clients, will also help the Bank expand its wealth management business and ensure the successful offering of its wealth management products.

Marketing

The Bank's major marketing model for the investment banking business involves cooperation between the Head Office, domestic and overseas offices and different business lines. A key strategy of the Bank's bank-wide marketing efforts is to combine the marketing efforts of the investment banking business and commercial banking business.

OVERSEAS BUSINESS

As at 30 June 2021, the Bank had 19 major subsidiaries with a total of 592 entities, including 425 domestic ones and 167 overseas ones, covering 30 countries and regions including Hong Kong, Singapore, Germany, South Africa, Japan, South Korea, the U.S., the U.K., Vietnam, Australia, Russia, the United Arab Emirates, Taiwan, Luxembourg, Macau, New Zealand, Canada, France, Netherlands, Spain, Italy, Switzerland, Brazil, Cayman Islands, Ireland, Chile, Indonesia, Malaysia, Poland and Kazakhstan and maintained wholly-owned operating subsidiaries including CCB Asia, CCB London, CCB Russia, CCB Europe, CCB New Zealand, CCB Brasil and CCB Malaysia and held 60 per cent. of the total share capital of CCB Indonesia.

As at 30 June 2021, the total assets of the Group's overseas entities were RMB1,602,453 million, representing approximately 4.10 per cent. of the Group's total assets. In May 2015, Chile Branch became the first RMB clearing bank in South America, and the branch officially opened in 2016. In June 2015, Paris Branch, Amsterdam Branch, Barcelona Branch and Milan Branch under CCB Europe were successively opened. Cape Town Branch (under Johannesburg Branch) commenced business in September 2015. London Branch commenced business in October 2015. Zurich Branch was established and designated as the RMB clearing bank in November 2015, and it officially opened in 2016 and Dubai International Financial Centre Branch received its official banking licence and commenced business in November 2015 and Warsaw Branch received its official banking licence in December 2016. CCB Malaysia obtained a commercial banking licence in October 2016. The Bank completed its acquisition of PT Bank Windu Kentjana International Tbk in September 2016, and renamed the entity to PT Bank China Construction Bank Indonesia Tbk. PT Bank China Construction Bank Indonesia Tbk was officially inaugurated in February 2017 and the Warsaw Branch of CCB Europe, CCB Malaysia and CCB Australia Perth Branch officially commenced operations in 2017. In February 2018, the Bank's New Zealand Branch officially opened for business. In March 2019, the Bank's Astana Branch was granted a licence and in June 2019, the Bank's Labuan Branch was granted a licence. In June 2020, Hungary Branch under CCB Europe received its banking license and completed the local registration.

MAJOR SUBSIDIARIES

In 2009, the Bank established the equity investment and strategy cooperation department to coordinate and manage its subsidiaries. According to the 2021 First Half Financial Statements, major subsidiaries of the Bank as at 30 June 2021 are set out below:

Name of subsidiary	Principal activities
China Construction Bank (London) Limited	Commercial banking
China Construction Bank (Europe) S.A	Commercial banking
PT Bank China Construction Bank Indonesia, Tbk	Commercial Banking
China Construction Bank (Malaysia) Berhad	Commercial Banking
China Construction Bank (New Zealand) Limited.	Commercial banking
China Construction Bank (Asia) Corporation Limited	Commercial banking
China Construction Bank (Brasil) Banco Múltiplo S/A	Commercial banking
China Construction Bank (Russia) Limited	Commercial banking
CCB Financial Leasing Co., Ltd.	Financial leasing
CCB Life Insurance Co., Ltd.	Insurance
Sino-German Bausparkasse Co., Ltd.	House savings bank
CCB Trust Co., Ltd.	Trust business
CCB Pension Management Co., Ltd.	Pension Management
CCB Principal Asset Management Co., Ltd.	Fund management services
CCB International (Holdings) Limited	Investment
CCB Futures Co., Ltd.	Futures
CCB Property & Casualty Insurance Co., Ltd.	Insurance
CCB Financial Asset Investment Co., Ltd.	Investment
CCB Wealth Management Co., Ltd.	Wealth management
CCB Brazil Financial Holding – Investimentos e Participações Ltda	Investment

Integrated Operation Subsidiaries

The Group's integrated operation strategy is to accelerate the development of insurance, wealth management, trust, investment banking, mutual funds, leasing, securities and other non-banking businesses, while developing banking as its core business. The Group endeavours to build an operating framework that covers interconnected markets and complementary businesses, with diversified income and decentralised and controllable risk, and realise customer-oriented functions selection, to provide customers with integrated and diversified financial services.

As at 30 June 2021, the Group owned several domestic and offshore subsidiaries in the non-banking financial sector, including CCB Wealth Management Co., Ltd. ("**CCB Wealth Management**"), CCB Principal Asset Management Co., Ltd. ("**CCB Principal Asset Management**"), CCB Financial Leasing Co., Ltd. ("**CCB Financial Leasing**"), CCB Trust Co., Ltd. ("**CCB Trust**"), CCB Life Insurance Co., Ltd. ("**CCB Life**"), Sino-German Bausparkasse Co., Ltd. ("**Sino-German Bausparkasse**"), CCB Futures Co., Ltd. ("**CCB Futures**"), CCB Pension Management Co., Ltd. ("**CCB Pension**") CCB Property & Casualty Insurance Co., Ltd ("**CCB Property & Casualty**"), CCB Financial Asset Investment Co., Ltd. ("**CCB Investment**") and CCB International (Holdings) Limited ("**CCB International**").

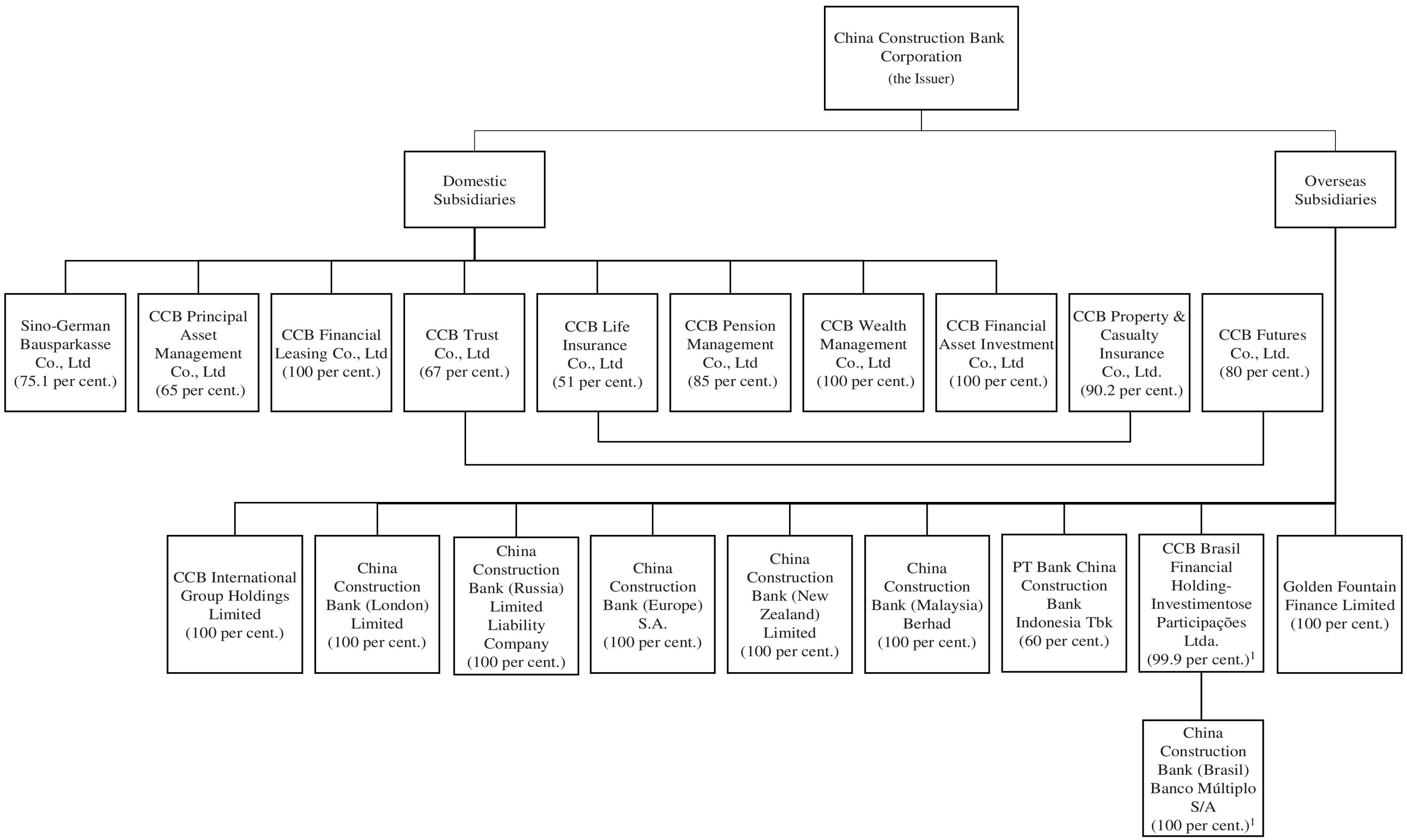
The Group set up several banking entities providing professional and differentiated services in specific industries and regions. In 2013, Sino-German Bausparkasse developed its housing credit business and achieved significant results in selling housing savings products. As at 30 June 2021, total assets of Sino-German Bausparkasse were RMB28,380 million.

CCB Pension has a registered capital of RMB2.3 billion, of which the Bank and National Council for Social Security Fund hold 85 per cent. and 15 per cent. of its shares, respectively. CCB Pension is mainly engaged in businesses including investment and management of national social security funds, businesses related to management of enterprise annuity funds, entrusted management of pension funds, pension advisory for above businesses and other businesses as approved by banking regulators under the State Council. As at 30 June 2021, the total assets of CCB Pension were RMB3,506 million and the net profit for the six months ended 30 June 2021 was RMB70 million.

As at 30 June 2021, the total assets of the integrated operation subsidiaries were RMB753,054 million, an increase of 7.77 per cent. from 31 December 2020. For these purposes, integrated operation subsidiaries include the following subsidiaries as set out in the 2021 First Half Financial Statements: CCB Wealth Management, CCB Principal Asset Management, CCB Financial Leasing, CCB Trust, CCB Life, Sino-German Bausparkasse, CCB Futures, CCB Pension, CCB Property & Casualty, CCB Investment and CCB International. CCB Principal Asset Management made full efforts to promote the development of various businesses, maintained safe and steady operation, and achieved good business performance; as at 30 June 2021, total assets managed by CCB Principal Asset Management were RMB1.24 trillion. CCB Trust stepped up efforts in improving compliance in its operations, actively engaged in innovation-driven development, and delivered strong operating results; as at 30 June 2021, trust assets under management by CCB Trust amounted to RMB1.63 trillion. Net profit of the integrated operation subsidiaries for the six months ended 30 June 2021 was RMB6,659 million, an increase of 80.02 per cent. from the same period of the previous year.

Organisational Structure

The following chart shows the Bank's simplified group structure as at 30 June 2021:



(1) As at 30 June 2021, the Bank held 100 per cent. of the total share capital of China Construction Bank (Brasil) Banco Múltiplo S/A, and held 100 per cent. of its total issued voting share.

CAPITAL

The Group has a comprehensive capital management framework, which covers the management of its capital adequacy ratios, risk weighted assets and leverage ratios. The Group continues to strengthen its capital management and aims to further improve the utilisation of its capital.

Capital Adequacy Ratios

The Group's consolidated regulatory capital positions calculated in accordance with the CBIRC Capital Regulations as at 31 December 2018, 2019 and 2020, and as at 30 June 2021 are as follows[1]:

	As at 31 December						As at 30 June	
	2018		2019		2020		2021	
	Group	Bank	Group	Bank	Group	Bank	Group	Bank
	(In millions of RMB, except percentages)							
Total capital after regulatory adjustment:								
Common Equity Tier 1 Capital	1,889,390	1,766,840	2,089,976	1,938,236	2,261,449	2,105,934	2,334,870	2,161,273
Tier 1 capital	1,969,110	1,838,956	2,209,692	2,046,546	2,361,517	2,191,258	2,434,940	2,240,956
Total capital	2,348,646	2,215,308	2,637,588	2,468,041	2,832,681	2,649,639	2,926,515	2,720,541
Capital adequacy ratios:								
Common Equity Tier 1 ratio	13.83%	13.74%	13.88%	13.88%	13.62%	13.63%	13.23%	13.15%
Tier 1 ratio	14.42%	14.30%	14.68%	14.65%	14.22%	14.18%	13.80%	13.63%
Total capital ratio	17.19%	17.22%	17.52%	17.67%	17.06%	17.15%	16.58%	16.55%

Composition of Capital

The Group's consolidated regulatory capital positions calculated in accordance with the CBIRC Capital Regulations as at 31 December 2018, 2019 and 2020, and as at 30 June 2021 are as follows:

	As at 31 December			As at 30 June
	2018	2019	2020	2021
	(In millions of RMB, except percentages)			
Capital adequacy ratios:				
Common Equity Tier 1 ratio	13.83%	13.88%	13.62%	13.23%
Tier 1 ratio	14.42%	14.68%	14.22%	13.80%
Total capital ratio	17.19%	17.52%	17.06%	16.58%
Common Equity Tier 1 capital				
- Qualifying common share capital	250,011	250,011	250,011	250,011
– Capital reserve	134,511	134,511	134,237	134,237
– Surplus reserve	223,231	249,178	275,995	275,995
– General reserve	279,627	314,152	350,647	349,605
– Retained earnings	989,113	1,116,273	1,241,127	1,315,241
– Non-controlling interest given recognition in Common Equity Tier 1 capital	2,744	3,535	3,954	3,867
– Others[1]	19,836	32,573	19,483	19,398
Deductions for Common Equity Tier 1 capital				
– Goodwill[2]	2,572	2,615	2,045	1,974
– Other intangible assets (excluding land use right)[2]	3,156	3,971	4,623	4,463
– Cash flow hedge reserves that relate to the hedging of items that are not fair valued on the balance sheet	53	(239)	367	77
– Investments in common equity of financial institutions being controlled but outside the scope of consolidation	3,902	3,910	6,970	6,970
Additional Tier 1 capital				
- Other directly issued qualifying additional Tier 1 instruments including related Premium	79,636	119,627	99,968	99,968
- Non-controlling interest recognised in Additional Tier 1 capital	84	89	100	102

	As at 31 December			As at 30 June
	2018	2019	2020	2021
	(In millions of RMB, except percentages)			
Tier 2 capital				
- Directly issued qualifying Tier 2 instruments including related premium	206,615	201,653	225,016	208,736
- Provisions in Tier 2	172,788	226,102	245,989	282,674
- Non-controlling interest recognised in Tier 2 capital.	133	141	159	165
Common Equity Tier 1 capital after regulatory adjustment[(3)]	1,889,390	2,089,976	2,261,449	2,334,870
Tier 1 capital after regulatory adjustment[(3)]	1,969,110	2,209,692	2,361,517	2,434,940
Total capital after regulatory adjustment[(3)]	2,348,646	2,637,588	2,832,681	2,926,515
Risk-weighted assets[(5)]	13,659,497	15,053,291	16,604,591	17,646,361

(1) "Others" include other comprehensive income at the end of the reporting period.

(2) Both balances of goodwill and other intangible assets (excluding land use right) are the net amounts after deducting relevant deferred tax liabilities.

(3) Common Equity Tier 1 capital after regulatory adjustments is calculated by netting off the corresponding deduction items from the Common Equity Tier 1 capital. Tier 1 capital after regulatory adjustments is calculated by netting off the corresponding deduction items from the Tier 1 capital. Total capital after regulatory adjustments is calculated by netting off the corresponding deduction items from the total capital.

Risk-weighted assets

The Group's consolidated risk-weighted assets calculated in accordance with the CBIRC Capital Regulations as at 31 December 2018, 2019 and 2020, and as at 30 June 2021 are as follows:

	As at 31 December			As at 30 June
	2018	2019	2020	2021
	(In millions of RMB)			
Credit risk-weighted assets	12,473,529	13,788,746	15,274,351	16,324,338
Covered by internal rating-based approach	8,369,011	8,748,138	10,638,946	11,351,790
Uncovered by internal rating-based approach	4,104,518	5,040,608	4,635,405	4,972,548
Market risk-weighted assets	120,524	123,700	120,039	111,822
Covered by internal models approach	72,578	74,509	69,610	56,121
Uncovered by internal models approach	47,946	49,191	50,429	55,701
Operational risk-weighted assets	1,065,444	1,140,845	1,210,201	1,210,201
Additional risk-weighted assets due to the application of capital floor	–	–	–	–
Total risk-weighted assets	13,659,497	15,053,291	16,604,591	17,646,361

Leverage Ratio

The Group's leverage ratio calculated in accordance with the "Measures for the Administration of the Leverage Ratio of Commercial Banks" issued by the CBIRC as at 31 December 2018, 2019 and 2020, and as at 30 June 2021 are as follows:

	As at 31 December			As at 30 June
	2018	2019	2020	2021
	(In millions of RMB, except percentages)			
Leverage Ratio[(1)]	8.05%	8.28%	7.99%	7.79%
Tier 1 capital after regulatory adjustment	1,969,110	2,209,692	2,361,517	2,434,940
On and off-balance sheet assets after adjustments[(2)]	24,460,149	26,694,733	29,548,554	31,263,173

(1) Leverage ratio is calculated in accordance with relevant regulatory requirements. Tier 1 capital after regulatory adjustments is consistent with that used in the calculation of capital adequacy ratio by the Group.

(2) On and off-balance sheet assets after adjustments = On-balance sheet assets after adjustments + Off-balance sheet items after adjustments – regulatory adjustments to Tier 1 capital.

Issuance and Redemption of Preference Shares

On 16 December 2015, the Bank made a non-public issuance of offshore preference shares in the offshore market. A total number of 152,500,000 shares were issued, each having a par value of RMB100 and an issuance price of U.S.$20, with a total amount of U.S.$3.05 billion. The dividend rate would be adjusted every five years, and within each adjustment period, the dividend rate would remain unchanged. The dividend rate was the yield on 5-year US treasury notes in the adjustment period plus a fixed interest spread, and the dividend rate of the first five years after issuance was 4.65 per cent. The offshore preference shares were listed on the Hong Kong Stock Exchange on 17 December 2015. Net proceeds raised from the offshore preference shares approximated RMB19,659 million, all used to replenish additional tier 1 capital of the Bank. On 16 October 2020, the Bank received a reply letter from the CBIRC, pursuant to which, no objections were raised by the CBIRC to the redemption. Pursuant to the terms and conditions of the offshore preference shares, the Bank redeemed the offshore preference shares in whole on 16 December 2020. The redemption price of each offshore preference share equals to the aggregate of the issue price (an amount equals to the 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.

On 21 December 2017, the Bank made a non-public issuance of 600,000,000 domestic preference shares in the domestic market, each with a par value of RMB100 and issued at par. The dividend rate equals benchmark interest rate plus a fixed interest spread. The dividend rate would be adjusted every five years, and within each adjustment period, the dividend rate would remain unchanged. The dividend rate in the first dividend rate adjustment period of this non-public issuance of domestic preference shares was determined at 4.75 per cent. through pricing inquiry in the market. This non-public offering of domestic preference shares was listed on the Comprehensive Business Platform of Shanghai Stock Exchange for transfer on 15 January 2018, the stock abbreviation and the stock code are "建行優1" and 360030, respectively. Gross proceeds raised from the non-public issuance of domestic preference shares amounted to RMB60 billion. After deduction of expenses relating to the issuance, net proceeds raised were RMB59,977 million, all of which were used to replenish additional tier 1 capital of the Bank.

Issuance of Perpetual Bonds

On 15 November 2019, the Bank issued RMB40 billion Undated Additional Tier 1 Capital Bonds. The coupon rate is 4.22 per cent. during the first 5 years, and will be reset every five years. The Bank has a conditional redemption right on every dividend payment day from the fifth year onwards. All proceeds raised are used to replenish Bank's additional Tier 1 capital.

Employment

As at 30 June 2021, the Bank had 345,755 employees (not including 3,520 workers dispatched by labour leasing companies). The number of employees with academic qualifications of bachelor's degree or above was 251,062 or 72.61 per cent. In addition, the Bank assumed the expenses of 88,732 retired employees.

Recent Developments

Impact of COVID-19 pandemic and the Group's main countermeasures

In 2020, the spread of COVID-19 has had a severe impact on the global economy. China has achieved significant strategic results through coordinated efforts in the prevention and control of COVID-19 and in economic and social development, and the domestic economy has resumed to normal. However, the international economic and financial environment remained complex and challenging, and there still exists many uncertainties in the developments of COVID-19 in China and the rest of the world. The Group actively shouldered responsibilities as a large bank, fully supported the prevention and control of COVID-19 and the resumption of work and production, vigorously promoted digitalised operations and services, and strove to achieve high-quality development of its businesses. Please refer to "*Risk Factors*

– *Risks Relating to the Bank's Business – Uncertainties and instability in the global market conditions could adversely affect the Bank's business, financial condition and results of operations*" and "*Risk Factors – Risks Relating to the Bank's Business – Any force majeure events, including occurrence of natural disasters or outbreaks of contagious diseases (such as COVID-19) may have an adverse effect on the Bank's business operations, financial condition and results of operations*".

The Group's main countermeasures in response to COVID-19 are as follows:

Implementing regular COVID-19 prevention and control to ensure the smooth operation of business

The Group set up a leading team for COVID-19 prevention and control, strengthened its organisational structure, optimised response mechanisms and improved emergency response plans. It enhanced its prediction of risks including credit risk and liquidity risk and strengthened the unified credit risk control at the group level. It also enhanced business continuity management and improved internal control measures such as rules, regulations and IT systems. The Group strengthened the care and safety protection of its associates and ensured the provision of various prevention supplies. It quickly enabled remote working of the uniform staff platform, deployed more robotic process automation (RPA) applications, and implemented flexible working arrangements such as working from home, rotating shifts and staggered shifts.

Introducing multiple strategies to fully support the prevention and control of COVID-19 and the resumption of work and production

The Group took coordinated efforts to support the prevention and control of COVID-19 and the economic and social development, for example it successively introduced "10 Measures" of financial services to support the prevention and control of COVID-19. The Group also increased credit supply, mainly to address the credit demands of sectors and industries related to the prevention and control of COVID-19 and the resumption of work and production, as well as inclusive finance business, and the manufacturing sector. A total of RMB125,680 million loans were granted to 12,166 key enterprises engaging in the prevention and control of COVID-19. The Group further reduced service fees, provided favourable loan interest rates to key enterprises engaging in the prevention and control of COVID-19, and adopted relief measures such as deferred principal repayment and interest payment, loan extension and renewal to help customers affected by COVID-19. The Group provided fund support to key customers and financial institutions in key regions, and successfully issued special bonds for enterprises engaging in the prevention and control of COVID-19 and special interbank certificates of deposit for the prevention and control of COVID-19. The Group co-built "Oxygen Tank for Enterprises" with governments to support enterprises for the resumption of work and production, signed a total of 31 cooperation agreements with different levels of governments and departments of provinces and cities, and granted nearly RMB180 billion loans for over 20,000 enterprises. By the end of 2020, donations from the Group and its associates had reached RMB317 million, which included 11.50 million pieces of epidemic prevention materials.

Promoting forward-looking active risk mitigation to consolidate asset quality foundation

Adhering to the principle of prudence, and fully considering the impact of COVID-19 and government relief measures on the macro-economy, the Group increased provisions, and improved the disposal of risk assets based on the actual risk profile of customers, to enhance its risk mitigation capability. The Group carried out forward-looking special stress tests on the impact of COVID-19, continued to improve post-lending monitoring and management, and took measures to mitigate risks in advance to ensure the steady development of businesses. The assumptions underlying the expected credit losses calculation, such as how the maturity profile of probability of defaults and how the collateral values change, were monitored and reviewed on a quarterly basis. There were no significant changes in estimation techniques and such assumptions made for the year ended 31 December 2020. At the end of 2020, the NPL ratio of the Group was 1.56 per cent., and the proportion of special mention loans was 2.95 per cent. The allowances to total loans was 3.33 per cent. and allowances to NPLs was 213.59 per cent., maintaining at a high level.

Issuance of multi-currency ESG-themed bonds which listed on several exchanges

The Bank issued multi-currency ESG-themed bonds offshore on 15 April 2021, including three-year and five-year dual series sustainability-linked bonds in the aggregate principal amount of U.S.$1.15 billion, a series of three-year green bond in the aggregate principal amount of EUR800 million, and a series of two-year offshore transition bond in the aggregate principal amount of RMB2 billion. The US dollar denominated bonds, which were dual-listed in Hong Kong and Dubai, were the first sustainability-linked US dollar denominated bonds issued by a financial institution. The Euro denominated bonds, which were triple-listed in Hong Kong, Luxembourg and London, were the first offshore "water protection" themed green bond issued by a Chinese financial institution; the offshore RMB bonds, which was dual-listed in Hong Kong and Singapore exchanges, were the largest offshore RMB transition bond.

Issuance of a three-year special financial bond for small and micro business loans

With the approvals from CBIRC and the PBOC, the Bank issued in the domestic market a series of three-year special financial bond for small and micro business loans with a fixed interest rate of 3.30 per cent. and a total face value of RMB20.00 billion in January 2021. The funds raised were specifically used to grant small and micro business loans.

RISK MANAGEMENT AND INTERNAL CONTROL

OVERVIEW

In 2020, the Group strengthened research on the macroeconomic situation, increased the frequency of stress testing, carried out major risks assessment, and adhered to the principle that business development should be bound by its risk management and control capabilities. The Group effectively promoted the building of the comprehensive, proactive and intelligent risk management system, enhanced the unified view of risks for the Group, and pushed forward standardised control and systematic prevention of all types of risks for all assets at every group member.

RISK MANAGEMENT FRAMEWORK

The board of directors of the Bank (the "**Board**") performs risk management responsibilities pursuant to the Bank's Articles of Association and regulatory requirements. The Risk Management Committee under the Board is responsible for developing risk management strategies, supervising the implementation, and assessing the overall risk profile on a regular basis. The Board reviews the statements of risk appetite regularly and transmits risk appetite through policies. The Board of Supervisors supervises the construction of the comprehensive risk management system, as well as the performance of the Board and senior management in delivering comprehensive risk management responsibilities. Senior management is responsible for implementing risk strategies developed by the Board and organising the comprehensive risk management work across the Group.

Chief Risk Officer of the Bank assists the President with risk management work within designated responsibilities. Risk Management Department is the leading management department responsible for the Group's comprehensive risk management, and its subordinate department, Market Risk Management Department takes the lead in market risk management. Credit Management Department is the leading management department responsible for the overall credit risk management and country risk management. Asset & Liability Management Department is the leading management department responsible for the management of liquidity risk and interest rate risk of banking book. Internal Control & Compliance Department is the leading management department responsible for operational risk and information technology risk management. Public Relations & Corporate Culture Department is in charge of reputational risk management. Strategy and Policy Coordination Department is the leading management department responsible for strategic risk management. Other specialised departments are responsible for other risks.

The Bank attached great importance to the risk management of subsidiaries, implemented management requirements of the parent bank through the corporate governance mechanism, continuously improved the quality and efficiency of the performance of the Board of Directors of the subsidiaries, and required the subsidiaries to focus on their main businesses, operate steadily, and establish a sound risk control system. It further highlighted the transmission of risk appetite at the Group level within the group risk management framework, and implemented refined and differentiated management of different types of subsidiaries. It strengthened the Group's consolidation and credit management to avoid lending beyond credit limits. It continued to promote the establishment of risk views of subsidiaries, and effectively improved the digital level of risk early warning and risk monitoring of subsidiaries. It strengthened overall planning and coordination and improved the long-term mechanism for risk management of the asset management business at the subsidiaries.

Credit Risk Management

Credit risk represents the potential loss that may arise from the failure of a debtor or counterparty to meet its obligations or commitment to the Group. In 2020, COVID-19 seriously affected the global economic development, and brought unprecedented impact on domestic economic growth. Against the backdrop of extremely complex and challenging external environment, the Group actively implemented various national policies, increased credit supply, and focused on supporting key areas in the real economy to assist in economic recovery. It made great efforts in risk prevention and control so as to achieve sound risk control together with stable growth.

Reinforcing proactive and forward-looking credit management

The Group continued to carry out proactive and forward-looking credit management. It continuously optimised credit structure, consolidated strength in infrastructure sector, improved the proportion of inclusive finance, promoted the steady development of green finance and strategic emerging industries, and supported the upgrading of manufacturing sector. It improved the credit process and mechanism, and promoted the refined management of the process. It adhered to substantive risk judgment to identify risks effectively and accurately, and enhanced unified credit risk monitoring of the Group. It strictly followed the principle of prudence to enhance its ability to withstand risks, and accurately reflected risk pressures and operating results.

Strengthening risk control over credit approval

The Group strengthened risk control over credit approval. The Group strictly implemented credit approval strategy, and strengthened risk control in key areas to optimise credit structure. It centralised all information resources, strengthened information mining, analysis and application based on monitoring data, and promoted the development of a decision-making support system to assist in credit approval decision-making. It optimised the approval mechanism and process at domestic and foreign institutions, and shortened the business chain. It promoted intensive management and pressed ahead with the pilot programme of "Cloud-based Approval". It also promoted the development of an intelligent compliance review system and a credit approval document library, and achieved mobile credit approval for the whole process.

Enhancing risk measurement capabilities

The Group enhanced its risk measurement capabilities. It expanded the application scope of its online business risk scanning and detection system and optimised the screening rules. It strengthened the development and application of the risk model decision system, which supported branches to diagnose and analyse issues in daily risk management. It deepened the refined management of economic capital, and strengthened its internal growth drivers. It developed intelligent rating tools for corporate customers, and launched the function to help verify the authenticity of financial statements. Its credit limit control strengthened the management of concentration risk and the risk from borrowers who had loans from multiple sources.

Strengthening the operation and value management of non-performing assets

The Group adjusted its structure, clarified the strategies for non-performing assets operation and carried forward innovation in NPLs disposal channels. It set the ultimate goal of maximising the recovery value with classified and categorised operational targets. The Group improved the closing rates and recovery rate of batch transfers in the process of pushing forward refined management, leading to a remarkable rise in the cash recovery from written-off assets. In particular, it adjusted its operation and disposal strategy for non-performing assets in responding to the adverse impact of COVID-19, took multiple measures to increase NPL disposals, and steadily enhanced its operating and disposal capacity for non-performing assets.

Concentration of Credit Risks

In line with regulatory requirements, the Group proactively adopted a series of measures to prevent large exposure concentration risk, including further tightening lending criteria, adjusting business structure, controlling the credit granting pace, revitalising existing credit assets and innovating products etc.

At the end of June 2021, the Group's gross loans to the largest single borrower accounted for 3.81 per cent. of its total capital after regulatory adjustments, while those to the top ten customers accounted for 12.42 per cent. of its total capital after regulatory adjustments.

Concentration of loans

	As at 31 December			As at 30 June
	2018	2019	2020	2021
		(%)		
Proportion of loans to the largest single customer . . .	2.95	2.65	3.55	3.81
Proportion of loans to the top ten customers	13.05	10.82	11.84	12.42

Concentration of Borrowers

The Group's top ten single borrowers and their loans as at the date indicated are as follows:

		As at 30 June 2021	
		Amount	% of gross loans and advances excluding accrued interest
		(In millions of RMB, except percentages)	
	Industry		
Customer A	Transportation, storage and postal services	111,605	0.62
Customer B	Leasing and commercial services	39,381	0.22
Customer C	Transportation, storage and postal services	34,423	0.19
Customer D	Transportation, storage and postal services	30,702	0.17
Customer E	Transportation, storage and postal services	29,150	0.16
Customer F.	Production and supply of electric power, heat, gas and water	27,910	0.15
Customer G	Transportation, storage and postal services	26,303	0.15
Customer H	Production and supply of electric power, heat, gas and water	23,697	0.13
Customer I	Transportation, storage and postal services	20,354	0.11
Customer J	Transportation, storage and postal services	19,807	0.11
Total.		**363,332**	**2.01**

LIQUIDITY RISK MANAGEMENT

Liquidity risk is the risk that occurs when a commercial bank cannot obtain sufficient funds in time and at a reasonable cost to repay debts when they are due, fulfil other payment obligations, or meet the other funding needs in regular business development.

The Board assumes the ultimate responsibility for liquidity risk management, and authorises its special committees to discharge relevant duties, and reviews and approves the liquidity risk strategy and risk appetite. The senior management carries out the liquidity risk strategy set by the Board, and organises the implementation of the liquidity risk management activities. The board of supervisors supervises and evaluates the performance of the Board and the senior management in the liquidity risk management. The Asset and Liability Management Department leads in the Bank's daily liquidity risk management, and forms an executive system together with the business management departments and branches to perform various duties in liquidity risk management. The subsidiaries assume primary responsibility for their own liquidity risk management.

The Group's objective for liquidity risk management is to ensure the security of its payment and settlement, and the overall strategy features prudence, decentralisation, coordination and diversification. Liquidity risk arises from such major factors and events as significant drop in liquidation of current assets, massive outflow of wholesale or retail deposits, decreasing access to wholesale and retail financing, shorter financing periods, increasing financing costs, significant adverse changes in market liquidity and breakdown of the Bank's payment and settlement system. In light of the regulatory requirements, external macro environment and the Bank's business development, the Head Office formulates approaches for liquidity risk identification, measurement and monitoring, sets out risk limit management criteria, carries out intra-day liquidity management, conducts stress testing at the group level regularly, and reviews and assesses contingency plans.

The Group conducts quarterly stress testing on its liquidity risk in order to gauge its risk tolerance in unlikely extreme scenarios and other adverse scenarios. It improved its liquidity risk stress testing methods in accordance with regulatory and internal management requirements. The results of stress testing show that under different stress scenarios, the Group's liquidity risk is under control.

In 2020, the Group continued to adhere to the principle of robustness and prudence in liquidity risk management. By fully considering changes in internal and external liquidity situation, it controlled the size and progress of asset growth as appropriate, and reasonably adjusted the term structure of assets and liabilities. It actively cooperated with the PBOC to carry out monetary policies, and provided liquidity timely at reasonable prices to maintain the stable operation of money market in the special period of COVID-19 prevention and control. It continued to improve the refined management of liquidity, and predicted liquidity risk with sensitivity analysis to ensure the safety of payment and settlement of the Group and keep the stability and compliance of various indicators.

In the first half of 2021, monetary policies of central banks remained prudent, neutral, flexible, precise, and reasonably moderate. The Group adhered to the principle of robustness and prudence to manage liquidity risk and continued to strengthen liquidity risk expectation management. It appropriately arranged the use of the Group's funding sources, and ensured the coordinated development of assets and liabilities business. As a result, all related indicators continued to meet the requirements. It strengthened the coordinated liquidity management at the group level, fully improved the refined liquidity risk management, and continued to improve the level of forward-looking and precise fund adjustment and control to ensure the security of the Bank's payment and settlement.

Indicators of liquidity risk management

The following table sets forth the liquidity ratios and loan-to-deposit ratio of the Group as at the dates indicated.

	As at 31 December				As at 30 June
	Regulatory standard	2018	2019	2020	2021
			(per cent.)		
Liquidity ratio[1] **RMB**	>25	47.69	51.87	55.66	55.13
Liquidity ratio[1] Foreign currency .	>25	84.88	68.29	58.64	66.32
Loan-to-deposit ratio[2] **RMB**		73.71	77.68	78.49	77.83

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

(2) Calculated on the basis of domestic legal person in accordance with the requirements of the CBIRC.

The following table sets forth the Group's liquidity coverage indicators for the second quarter of 2021:

No.	High-quality liquid assets	Total Unweighted Value	Total Weighted Value
		(RMB million yuan, except for percentage)	
1	Total High-Quality Liquid Assets (HQLA)		4,696,566
	Cash outflow		
2	Retail deposits and deposits from small business customers, of which:	10,453,585	923,993
3	Stable deposits	2,426,411	121,276
4	Less stable deposits	8,027,174	802,717
5	Unsecured wholesale funding, of which:	10,434,475	3,422,185
6	Operational deposits (excluding those generated from correspondent banking activates)	6,778,144	1,683,457
7	Non-operational deposits (all counterparties)	3,531,442	1,613,839
8	Unsecured debt	124,889	124,889
9	Secured funding		760
10 . . .	Additional requirements, of which:	1,818,786	226,569
11 . . .	Outflows related to derivative exposures and other collateral requirements	59,103	59,103
12 . . .	Outflows related to loss of funding on secured debt products	4,390	4,390
13 . . .	Credit and liquidity facilities	1,755,293	163,076
14 . . .	Other contractual funding obligations	79	–
15 . . .	Other contingent funding obligations	3,693,680	474,094
16 . . .	**Total Cash Outflows**		**5,047,601**
	Cash inflow		
17 . . .	Secured lending (including reverse repos and securities borrowing)	441,372	439,929
18 . . .	Inflow from fully performing exposures	1,691,824	1,043,180
19 . . .	Other cash inflows	63,704	61,719
20 . . .	**Total Cash Inflows**	**2,196,900**	**1,544,828**
21 . . .	**Total HQLA**		**4,696,566**
22 . . .	**Total Net Cash Outflows**		**3,502,773**
23 . . .	**Liquidity coverage ratio (%)**[(1)]		**134.20**

(1) The above quarterly daily means represent simple arithmetic means of the values for 92 calendar days in the latest quarter, calculated in accordance with the current applicable regulatory requirements, definitions and accounting standards.

The Group regularly monitors the gaps between its assets and liabilities in different time brackets in order to assess its liquidity risk for different time periods. As at 30 June 2021, the cumulative maturity gap of the Group was RMB2,462,341 million, an increase of RMB72,988 million over the end of 2020. The negative gap for repayment on demand was RMB11,940,841 million, an increase of RMB378,218 million over the end of 2020, mainly due to the Group's large demand deposits from its expansive customer base. Considering the low turnover rate of the Group's demand deposits and steady growth of deposits, the Group expects to have stable sources of funding and maintain a stable liquidity position in the future.

MARKET RISK MANAGEMENT

Market risk is the risk of loss, in respect of the Group's on and off-balance sheet activities, arising from adverse movements in market rates including interest rates, foreign exchange rates, commodity prices and stock prices. Market risk arises from both the Group's trading and non-trading businesses.

The Group continues to improve market risk management system. The Market Risk Management Department is responsible for leading the establishment of market risk management policies and rules, developing the market risk measurement tools, monitoring and reporting the trading market risk and related daily work. The Asset and Liability Management Department (the "**ALM**") is responsible for managing non-trading interest rate risk, exchange rate risk and the size and structure of the assets and liabilities in response to structural market risk. The Financial Market Department manage the Bank's RMB and foreign currency investment portfolios, conducts proprietary and customer-driven transactions, as well as implementing market risk management policies and rules. The Audit Department is responsible for regularly performing independent audits of the reliability and effectiveness of the processes constituting the risk management system.

In 2020, the Group acted proactively in response to the volatility of financial markets, set up an inter-departmental joint emergency response team on major market risks, established a regular emergency meeting system, and formulated a targeted emergency plan for business continuity amid market risks to ensure the smooth operation of investment and trading businesses. It accelerated the building of the intelligent control platform for investment and trading businesses, completed the independent research, development and replacement of the purchased core management systems, and improved the digital level of market risk control. It promoted the rectification of legacy asset management business as scheduled, set up the risk control system of asset management business, and incorporated the interbank business into the new product risk management process of the investment and trading businesses. It continuously implemented see-through management, and strictly carried out risk classification and impairment provision accrual of underlying assets. It incorporated the information of derivative business and customer risk of subsidiaries into a unified risk view and established a whole-process control mechanism of "pre-lending eligibility management, monitoring during lending and post-lending evaluation" to achieve unified risk controls over cooperative institutions at the group level.

In the first half of 2021, the Group continued to strengthen the construction of risk management system for investment and trading business, and effectively responded to volatilities in bond, foreign exchange, stock and commodity markets. It formulated the annual risk limit plan for investment and trading business, strengthened risk screening of financial market trading business, and improved the management and control function of risk management system for derivatives business. It carried out special stress tests for bond business and optimised the post-investment management process of debentures. It revised the financial institution counterparty management system and optimised the list management mechanism. It promoted the rectification and risk mitigation of asset management business during the transition period. By leveraging the risk management and control platform for investment and trading business, it promoted the compliance with regulatory standards of market risk measurement using the new standardised approach and the new internal models approach.

Value at Risk Analysis

The Bank divides its on- and off-balance sheet assets and liabilities into trading book and banking book. The Bank performs value at risk ("**VaR**") analysis on its trading portfolio to measure and monitor the potential losses that could occur on risk positions taken, due to movements in market interest rates, foreign exchange rates and other market prices. The Bank calculates the VaRs of its RMB and foreign currency trading portfolios on a daily basis (at a confidence level of 99 per cent. and with a holding period of one trading day). The VaR analysis on the Bank's trading book as at the balance sheet date and during the respective periods is as follows:

	For the year ended 30 June							
	2020				2021			
	As at 30 June	Average	Maximum	Minimum	As at 30 June	Average	Maximum	Minimum
	(In millions of RMB)							
Risk valuation of trading portfolio	271	251	317	207	147	163	195	127
– Interest rate risk	145	75	182	46	63	64	89	41
– Exchange risk	257	254	298	214	134	163	195	110
– Commodity risk	6	8	39	3	11	12	45	–

INTEREST RATE RISK MANAGEMENT

Interest rate risk refers to the risk where the market interest rates, term structure and other factors may experience unfavourable fluctuations which impact the overall profitability and fair value resulting in losses to a bank. The key determinants of the Group's interest rate risk arise from the mismatch between the maturity periods of the assets and liabilities, and inconsistent pricing basis, resulting in re-pricing risk and basis risk.

The Group established interest rate risk management framework and system in light of its own condition, and implemented robust and prudent interest rate risk management strategy and policy. The Group employed a range of methods to measure and analyse the interest rate risk on banking book, including repricing gap analysis, sensitivity analysis of net interest income and economic value, duration analysis, stress testing, and economic capital analysis. The interest rate risk policy is in line with the Group's development strategy, risk appetite and risk management capability, and seeks to achieve a balance between interest rate risk and profitability, minimise the adverse impact from interest rate changes on net interest income and value, and ensure stable profit growth and capital structure.

In 2020, the Group paid close attention to changes in market rates, and reinforced dynamic risk monitoring and prediction. It continued to optimise the product portfolio and term structure and maintained the solid and coordinated growth of assets and liabilities. It flexibly adjusted internal and external price policies and strengthened its review of interest rate risk associated with innovative products. In addition, the Group actively implemented the requirements of the PBOC on the reform of interest rate liberalisation, and effectively promoted the conversion of benchmark interest rates. It strengthened the management of overseas entities and subsidiaries and optimised the relevant interest rate risk limits. It improved the interest rate risk management system, strengthened the backtesting of the measurement model, and consolidated the foundation of interest rate risk management. The results of the stress testing indicated that all indicators are kept within the limits, and the interest rate risk on banking book of the Group was under control.

In the first half of 2021, the Group paid close attention to changes in market rates, and reinforced dynamic risk monitoring and prediction. It continued to optimise its products and term structure and maintained the solid and coordinated growth of assets and liabilities. The Group flexibly adjusted internal and external price policies, strengthened its management and control of interest rate risk associated with innovative products, and carefully considered the maturity adjustment strategies for deposit and loan products to better adapt to changes in interest rate environment. It continued to optimise interest rate risk limits for overseas institutions to support the steady development of overseas businesses. During the six months ended 30 June 2021, the results of the stress testing indicated that all indicators are kept within the limits, and the interest rate risk on banking book of the Group was under control.

In a speech in July 2017, the Chief Executive of the United Kingdom Financial Conduct Authority (the "**FCA**") committed the FCA to begin planning a transition away from LIBOR to alternative reference rates that are based on actual transactions, such as the Sterling Over Night Index Average. The announcement indicated that the continuation of LIBOR in its current form is not guaranteed after 2021. Subsequent speeches by the Chief Executive of the FCA and other FCA officials emphasised that market participants should not rely on the continued publication of LIBOR after the end of 2021. On 5 March 2021, the FCA announced that (i) the publication of 24 LIBOR settings (as detailed in the FCA announcement) will cease immediately after 31 December 2021, (ii) the publication of the overnight and 12-month U.S. dollar LIBOR settings will cease immediately after 30 June 2023, (iii) immediately after 31 December 2021, the 1-month, 3-month and 6-month sterling LIBOR settings will no longer be representative of the underlying market and economic reality that they are intended to measure and representativeness will not be restored (and the FCA will consult on requiring the ICE Benchmark Administration Limited (the "**IBA**") to continue to publish these settings on a synthetic basis, which will no longer be representative of the underlying market and economic reality they are intended to measure, for a further period after end 2021) and (iv) immediately after 30 June 2023, the 1-month, 3-month and 6-month U.S. dollar LIBOR settings will no longer be representative of the underlying market and economic reality that they are intended to measure and representativeness will not be restored (and the FCA will consider the case for using its proposed powers to require IBA to continue publishing these settings on a synthetic basis, which will no longer be representative of the underlying market and economic reality they are intended to measure, for a further period after end June 2023). The Bank actively addressed the impact of adopting alternative or replacement reference rates, completed quantitative analysis on related areas, and identified overall standard and principles. Since the proportion of the Bank's foreign currency business based on LIBOR in the overall business is relatively low, the risk related to the transition to alternative or replacement reference rates is very limited. In future, the Bank will closely follow the progress of the establishment of new benchmark interest rates in various countries, facilitate an orderly transition from LIBOR, and effectively control related risks under China's financial supervision framework.

The Group attached great importance to the benchmark interest rate reform to replace London Interbank Offered Rate (LIBOR). In accordance with the PBOC's regulatory guidelines, and based on the research results of benchmark interest rate conversion management agencies in the countries where the currencies are issued, the Group steadily pressed ahead with studies on its benchmark interest rate conversion plan, product contract revision, IT system upgrades, customer communication and other related work. By the end of June 2021, the related work had proceeded in an orderly manner, and the Group took the lead in launching system upgrades in its overseas entities among Chinese banks, and issued pilot products such as Secured Overnight Financing Rate (SOFR) linked USD certificates of deposit. At the end of June 2021, the Group's exposure to LIBOR-linked businesses was small, and the conversion cost was controllable, therefore any impact on the operation would be insignificant.

Interest rate sensitivity gap analysis

The analysis of interest rate sensitivity gaps as at the specified dates by the next expected repricing dates or maturity dates (whichever are earlier) is set out below:

	Non-interest-bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years	Total
			(In millions of RMB)			
Interest rate sensitivity gap as at 31 December 2020	108,331	(2,864,124)	3,641,112	(1,502,646)	3,006,680	2,389,353
Accumulated interest rate sensitivity gap as at 31 December 2020		(2,864,124)	776,988	(725,658)	2,281,022	
Interest rate sensitivity gap as at 30 June 2021	285,235	(7,959,720)	8,299,033	(1,583,844)	3,421,637	2,462,341
Accumulated interest rate sensitivity gap as at 30 June 2021		(7,959,720)	339,313	(1,244,531)	2,177,106	

Net interest income sensitivity analysis

The net interest income sensitivity analysis is based on two scenarios. The first assumes all yield curves to rise or fall by 100 basis points in a parallel way, while the interest rates for deposits at the PBOC remain the same; the second assumes the yield curves to rise or fall by 100 basis points in a parallel way, while the interest rates for deposits at the PBOC and the demand deposits remain the same.

The interest rate sensitivity of the Group's net interest income as at 31 December 2020 and 30 June 2021 is set out below:

	Change in net interest income			
	Rise by 100 basis points (interest rates for deposits at the PBOC being constant)	**Fall by 100 basis points (interest rates for deposits at the PBOC being constant)**	**Rise by 100 basis points (interest rates for deposits at the PBOC and demand deposit rates being constant)**	**Fall by 100 basis points (interest rates for deposits at the PBOC and demand deposit rates being constant)**
	(In millions of RMB)			
As at 31 December 2020	(45,546)	45,546	80,344	(80,344)
As at 30 June 2021	(73,054)	73,054	56,718	(56,718)

EXCHANGE RATE RISK MANAGEMENT

Exchange rate risk is the risk of impact of adverse movements in foreign exchange rates on a bank's financial position. The Group is exposed to exchange rate risk primarily because of the currency mismatch of the assets and liabilities it holds in currencies other than RMB and the positions it takes as a market maker in the financial markets. The Group measures and analyses its exchange rate risk by using a combination of methods such as exchange rate risk exposure and stress testing, controls and mitigates its risk by matching its assets and liabilities, setting limits, and hedging.

In 2020, the Group paid close attention to changes in global economic and financial situation in the wake of COVID-19, and the impact on exchange rate trend and exchange rate risk level of the Group. It strengthened research on exchange rates of currencies for major economies and emerging markets, and improved its exchange rate risk prediction capability for multiple currencies. It continued to enhance the building of its exchange rate risk management system, updated and improved internal management rules. The Group's overall exchange rate risk exposure was small, and continued to satisfy regulatory requirements of the CBIRC. The stress testing results of exchange rate risk showed that the overall risk was under control.

In the first half of 2021, the Group adhered to a prudent and sound exchange rate risk management strategy, paid close attention to the changes in global economic situation in the wake of COVID-19, strengthened research on exchange rates of currencies of major economies and emerging markets, and dynamically monitored and analysed changes in the Group's exchange rate risk exposure. Affected by the need to purchase foreign currencies for distribution of dividends overseas, the Group's exchange rate risk exposure rose slightly at the end of June 2021, but this was expected to fall after dividend distribution. The stress testing results of exchange rate risk showed that the overall risk was under control, which continued to satisfy regulatory requirements of the CBIRC.

Currency concentrations

The Group's currency concentrations as at 30 June 2021 and 31 December 2020 are set out below:

	As at 31 December 2020				As at 30 June 2021			
	USD (RMB equivalent)	HKD (RMB equivalent)	Others (RMB equivalent)	Total	USD (RMB equivalent)	HKD (RMB equivalent)	Others (RMB equivalent)	Total
				(In millions of RMB)				
Spot assets	945,417	352,098	376,645	1,674,160	1,090,518	331,080	384,169	1,805,767
Spot liabilities	(1,000,213)	(330,942)	(290,448)	(1,621,603)	(1,119,001)	(349,831)	(281,342)	(1,750,174)
Forward purchases	1,826,299	75,051	137,233	2,038,583	1,776,408	146,346	106,669	2,029,423
Forward sales	(1,758,605)	(60,684)	(203,639)	(2,022,928)	(1,765,394)	(87,199)	(188,631)	(2,041,224)
Net options position	(16,261)	(29)	(4)	(16,294)	14,778	–	(1,163)	13,615
Net (short)/long position	(3,362)	35,494	19,787	51,919	(2,691)	40,396	19,702	57,407

As at 30 June 2021, the net exposure of foreign exchange rate risk of the Group was RMB57,407 million, an increase of RMB5,488 million as compared to 31 December 2020, mainly due to the progress of dividend purchase of foreign exchange, the Group's exchange rate risk exposure has increased in stages, which will be eliminated after dividend distribution.

Operational Risk Management

Operational risk is the risks that resulted from flawed or erroneous internal processes, people and systems, or external events.

In 2020, the Group constantly optimised the operational risk management system, and improved the business continuity management system. It proactively responded to COVID-19 to ensure continuous business operation.

The Group carried out the operational risk self-assessment in key areas, improved rules, processes and systems, carried out new product operational risk assessment, and strengthened management in advance. It enhanced the statistics, analysis and reporting of non-compliance losses. It formulated challenge policies in business operation, and rechecked the catalogue of important positions and manual on incompatible positions to ensure timely and effective counterbalance of different positions. It formulated work instructions, standardised and guided overseas institutions to respond to COVID-19 to ensure the sustained and steady operation of business. It improved emergency plans, and carried out targeted emergency drills to enhance the ability of emergency response. It further optimised the long-term mechanism of business continuity management, and continuously improved the ability of emergency prevention, response and recovery.

In the first half of 2021, the Group continued to strengthen operational risk management, revised operational risk management policies, improved governance structure, enriched management tools and defined control measures. It improved the management mechanism of financial services in response to emergencies by reference to regulatory requirements.

Anti-Money Laundering

The Group adheres to the concept of assuming social responsibility, fulfilling legal obligations, conducting active and compliant operation, and preventing financial crime, and is always following the risk-based management principle. It strictly implements anti-money laundering ("**AML**") and counter terrorist financing ("**CTF**") regulatory requirements, continuously identifies money laundering and terrorist financing risk, and performs prudent assessment, effective control and whole-process management, in order to earnestly protect customers' legitimate rights and interests and maintain the order of financial market.

In 2020, the Group paid attention to the improvement of AML ability. It improved AML governance framework, rules and systems, and basic guarantees, effectively performed core obligations, deepened risk assessment and control, refined compliance management of financial sanction, upgraded the overall technology support ability in AML, and significantly improved the compliance and effectiveness of money laundering risk management.

In the first half of 2021, the Group strictly implemented regulatory requirements, and followed the risk-based management principle to continuously press ahead with AML, counter-terrorist financing and anti-tax evasion. The Bank continued to improve governance structure, policies and systems, actively satisfied performance obligations, took proactive and effective measures and significantly improved the scientific and technological level for risk management. The Group made great progress in intelligent money laundering risk assessment, differentiated management and control of high-risk customers, standardisation of AML data, integration of the Group's system construction and compliance with sanctions and anti-sanctions policies, to effectively support the development of strategic businesses across the Bank and ensure compliant operation.

Reputational Risk Management

Reputation risk is the risk of potential or actual negative impact on or damage to a bank's overall image, reputation and brand value, when certain aspects of the commercial bank's operational, managerial or other behaviours or events attract media attention or coverage.

In 2020, the Group adhered to comprehensive, proactive and effective reputational risk management and further improved its reputational risk management system and emergency coordination and disposal mechanism. It improved the public opinion emergency plan for COVID-19, and standardised the reporting and handling procedures of branches on public opinion emergencies. It focused on identifying and issuing early warning for potential reputational risk factors, strengthened daily public opinions monitoring and further improved the capability in implementing mitigation measures. It proactively accepted media's supervision, improved its products, processes and services, enhanced internal management and continuously improved its services. For the year ended 31 December 2020, the Group steadily improved its reputational risk management practices and effectively safeguarded its good corporate image and reputation.

In the first half of 2021, the Group conscientiously implemented regulatory requirements for reputational risk, continued to improve the reputational risk management system and mechanism, and strengthened the consolidated management of reputational risk. It consistently adhered to the forward-looking, comprehensive, proactive and effective management principle, focused on identifying and issuing early warning for potential reputational risk factors, and strengthened daily public opinions monitoring. It continued to provide training to address reputational risk and public opinions, strengthened the reputational risk awareness of all employees, improved capability in public opinion response to build a defence line against reputational risks.

Country Risk Management

Country risk is the risk of losses in the physical outlets, equipment, facilities or other losses to the Group in a country or a region or other losses the Group suffers as a result of insolvency or refusal of borrowers or debtors in a country or a region to repay their debts to the Group, due to the economic, political, social changes and events in such country or region.

In the context of increasingly complex international political and economic situation, the Group continued to strengthen country risk management. It adopted a range of tools to manage the country risk, including evaluation and rating, risk limit, exposure measurement, provisioning, stress testing, monitoring and early warning, and emergency responses. It revised country risk management policies, carried out country risk monitoring, early warning and emergency response, and re-examined the ratings and risk limits of certain countries and regions. It optimised country risk management system and focused on improving proactive management capabilities. The Group's country risk exposure was mainly concentrated in countries or regions with "low" or "relatively low" country risk, and the overall country risk was maintained at a reasonable level.

In 2020, the Group continued to strengthen its country risk management in the face of the continuous spread of COVID-19 overseas and the complex and volatile global political and economic environment. It closely monitored changes in the country risk exposure, rechecked country risk ratings and limits, conducted stress testing, and issued country risk assessment reports. It promoted the upgrading of country risk management system, enhanced the management of identification, measurement, monitoring, control and reporting processes, and reinforced the unified management of the country risk at the group level.

In the first half of 2021, in the context of increasingly complex international political and economic situation, the Group continued to strengthen centralised country risk management at the group level. It closely monitored changes in country risk exposures, dynamically rechecked country risk ratings and limits, and conducted country risk monitoring and warning. It upgraded the country risk management system and enhanced the management of risk identification, measurement, monitoring, control and reporting. The Group's country risk exposure was mainly concentrated in countries or regions with "low" or "relatively low" country risk, and the overall country risk was maintained at a reasonable level.

Consolidated Management

Consolidated management is the Bank's on-going comprehensive management and control over the corporate governance, capital and finance of the Group and the subsidiaries, which enables the Bank to effectively identify, measure, monitor and control the overall risk profile of the Group.

In 2020, the Bank proactively implemented the latest regulatory requirements on consolidated management, improved the Group's consolidated management system, and enhanced the planning and coordination, in order to prevent cross-border and cross-industry business risks for the Group and strengthen its consolidated management.

The Group improved corporate governance and consolidated management system. It continued to streamline the Group's equity hierarchy and pressed ahead with seeing-through management of subsidiaries. It optimised the top-level design of parent-subsidiary coordination, strengthened the strategic management of subsidiaries, and improved the level of comprehensive financial services at the group level. It highlighted the central role of the board of directors of subsidiaries in corporate governance and continuously improved the effectiveness of corporate governance at subsidiaries. The Group deepened the risk appetite coordination, strengthened the risk limit management, and improved the rules and systems for large exposure management. Furthermore, it strengthened the front-office management and control of consolidated credit business at subsidiaries to reinforce the unified credit management within the Group.

It optimised the building of IT systems for consolidated management, built the core fundamental platform and three central system frameworks of consolidated management, promoted the intelligent management of subsidiary information, improved the automation level of consolidated management, and helped to improve the Group's refined management capability.

In the first half of 2021, the Bank continuously enhanced consolidated management and reinforced various aspects of the Group's consolidated management, including business collaboration, corporate governance, risk management and capital management. It strengthened the strategic management of subsidiaries and deepened the building of the parent-subsidiary coordination system. It optimised the corporate governance mechanism of its subsidiaries and clarified that the board of subsidiaries was responsible for risk management. It continued to optimise the consolidated management system and improved the automation level of consolidated management.

Internal Audit

The Bank's internal audit department serves the purpose of promoting a sound and effective risk management mechanism, the internal control system and corporate governance procedures. It evaluates the effectiveness of the internal control system and risk management mechanism, the effects of corporate governance procedures, the profitability of business operations, and the economic responsibilities of relevant individuals, and puts forward related suggestions for improvement. The internal audit system of the Bank is vertically managed, and relatively independent. The internal auditors are responsible to and report to the Board and the audit committee, and also report to the board of supervisors and senior management. In addition to the audit department at the Head Office, the Bank also has 29 audit offices at some tier-1 branches and an overseas audit centre in Hong Kong.

In 2020, the audit department highlighted risk prevention and control in key areas based on the progress in the prevention and control of COVID-19 and regulatory requirements, performed 22 categories of systematic audit projects on areas such as the credit policy management and execution, agency business, online lending business, AML, related party transactions, etc. It strengthened its efforts in audit follow-ups of key internal control deficiencies and significant risk events, performed in-depth analysis on the underlying causes of identified issues, required relevant departments and branches to improve management mechanisms, business processes and internal management, and promoted the stable and healthy development of the Bank.

In the first half of 2021, audit procedures were performed on credit business for large- and medium-sized customers, special assets resolution, loans to small businesses, key liability products and services, private banking, foreign exchange, credit cards, major channel operation, operational risk management, key financial matters management, important compliance matter management and other business areas. Meanwhile, it pushed relevant departments and branches to continuously improve their management mechanisms, business processes and internal management, to effectively promote the stable and healthy development of the Bank's operations and management.

Internal Control

The objectives of the internal control of the Bank are to reasonably ensure its operation and management in compliance with laws and regulations, assets safety, the accuracy and integrity of financial reports and relevant information, to improve operation efficiency and effects, and to facilitate the Bank to achieve its development strategies. According to the requirements regarding the standard system of enterprises internal control, the Board establishes sound and effective internal control, evaluates its effectiveness and supervises the effectiveness of the internal control system. The board of supervisors supervises the establishment and implementation of internal control of the Board. The senior management is responsible for organising and leading the daily operation of internal control.

In 2020, the Bank actively explored the establishment and digitisation of the internal control evaluation system, and implemented a normal evaluation work mechanism throughout the Bank, which achieved certain results. Based on the Bank's internal control evaluation work practice and development model, and with reference to the industry's advanced experience, the Bank's independently developed internal control evaluation system was successfully launched, achieving the refined management targets and requirements of internal control evaluation. Based on the typical characteristics of violations, corresponding data analysis and verification methods were designed to form a data analysis model, which improved the relevance and effectiveness of internal control evaluation. There was an in-depth evaluation of the Bank's business processes, and the Bank urged institutions at all levels to carry out normalised self-evaluations and self-inspections to timely identify and improve internal control deficiencies.

The Board and the audit committee assess the effectiveness of the internal control and examine the report of internal control annually. As at 31 December 2020, there was no material deficiency in the internal control of financial reporting of the Bank, and no material deficiency was detected in the internal control of non-financial report. The Board held that the Bank conducted effective internal control of financial reporting covering all the major aspects, in compliance with the requirements regarding the standard system of enterprise internal control and other relevant regulations.

Ernst & Young Hua Ming LLP audited the internal control of the Bank for the year ended 31 December 2020 in accordance with relevant requirements of Enterprise Internal Control Audit Guidelines, and the audit opinion of internal control issued by it was in line with the Bank's assessment of conclusion on the effectiveness of internal control of the financial report. The disclosure of material deficiencies of internal control of the non-financial report in the audit report of internal control was also in line with the disclosure of the assessment report of internal control of the Bank.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

GENERAL

As of the date of this Offering Circular, the Bank's Board is comprised of 14 members. There are six independent non-executive directors, six non-executive directors and two executive directors. The Bank's directors are elected at shareholder general meetings for a term of three years, which is renewable upon re-election. The chairman and the vice chairman of the Board are elected by simple majority of the Board. Mr. Tian Guoli is the Bank's chairman and is responsible for business strategy and overall development. Mr. Wang Jiang is the Bank's vice chairman and president and is responsible for overseeing the day-to-day management of the Bank's business and operations. The president is appointed by the Board, is responsible for the Board, and performs duties pursuant to the Bank's articles of association and the Board's authorisation.

Each of the Bank's directors, supervisors and senior management has disclosed to the Bank at the time of appointment, and in a timely manner for any change in, the number and nature of offices held in public companies or organisations and other significant commitments, the identity of the public companies or organisations and an indication of the time involved. As at 30 June 2021, some of the directors, supervisors and senior management of the Bank indirectly held H-shares of the Bank via the employee stock incentive plan before they assumed their current positions. Mr. Wang Jiang held 15,417 H-shares, Mr. Yang Fenglai held 16,789 H-shares, Mr. Lu Kegui[2] held 18,989 H-shares, Mr. Wang Yi held 13,023 H-shares, Mr. Wang Hao held 12,108 H-shares, Ms. Zhang Min held 9,120 H-shares, Mr. Hu Changmiao held 17,709 H-shares, Mr. Cheng Yuanguo held 15,863 H-shares and Mr. Zhang Yi[3] held 9,848 H-shares. Mr. Wu Jianhang, the resigned shareholder representative supervisor, held 20,966 shares and Mr. Jin Yanmin, the resigned chief risk officer, held 15,739 H-shares. Save as disclosed above, as at 30 June 2021, none of the directors and supervisors of the Bank had any interests or short positions in the shares, underlying shares and debentures of the Bank or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the "**SFO**")).

The following tables set forth information regarding the Bank's directors, supervisors and senior management. The Bank's directors, supervisors and members of senior management all meet the qualification requirements for their respective positions. Their qualifications have been reviewed and approved by the PRC banking regulatory authorities. Non-executive directors holding positions in the corporate shareholders do not receive compensation directly from the Bank.

2 As announced on 23 December 2021, Mr. Lu Kegui ceased to serve as employee representative supervisor of the Bank from 23 December 2021 due to expiration of his term of office.

3 As announced on 13 September 2021, Mr. Zhang Yi tendered his resignation as Chief Financial Officer to the Board of Directors of the Bank.

Directors

The following table sets forth certain information concerning the Bank's directors as at the date of this Offering Circular.

Name	Position
Tian Guoli	Chairman, executive director
Wang Jiang	Vice chairman, executive director, president
Xu Jiandong	Non-executive director
Zhang Qi	Non-executive director
Tian Bo	Non-executive director
Xia Yang	Non-executive director
Shao Min	Non-executive director
Liu Fang	Non-executive director
Malcolm Christopher McCarthy	Independent non-executive director
Kenneth Patrick Chung	Independent non-executive director
Graeme Wheeler	Independent non-executive director
Michel Madelain	Independent non-executive director
William Coen	Independent non-executive director
Leung Kam Chung, Antony	Independent non-executive director

Notwithstanding the disclosures mentioned in "*Directors, Supervisors and Senior Management – General*" section, no potential conflicts of interest exist between the obligations of the directors named above towards the Bank and their own interests or other obligations. The business address of each of the directors named above is No. 25, Financial Street, Xicheng District, Beijing, China 100033.

Tian Guoli

Chairman, executive director

Mr. Tian has served as chairman and executive director since October 2017, concurrently as chairman of Sino-German Bausparkasse since March 2018. Mr. Tian currently also serves as chairman of China Banking Association, a member of the Expert Committee for the 14th Five-Year Plan for Economic and Social Development of China, a member of the Monetary Policy Committee of the People's Bank of China and chairman of Asian Financial Cooperation Association and a member of International Advisory Panel of Monetary Authority of Singapore. Mr. Tian joined Bank of China in April 2013 and served as chairman of Bank of China from May 2013 to August 2017. During this period, he also served as chairman and non-executive director of Bank of China Hong Kong (Holdings) Limited. From December 2010 to April 2013, Mr. Tian served as vice chairman and general manager of China CITIC Group. During this period, he also served as chairman and non-executive director of China CITIC Bank. From April 1999 to December 2010, Mr. Tian served consecutively as vice president and president of China Cinda Asset Management Company, and chairman of China Cinda Asset Management Co., Ltd. From July 1983 to April 1999, Mr. Tian held various positions in the Bank, including sub-branch general manager, branch deputy manager, department general manager of the Head Office, and assistant president of the Bank. Mr. Tian is a senior economist. He received a bachelor's degree in economics from Hubei Institute of Finance and Economics in 1983.

Wang Jiang

Vice chairman, executive director, president

Mr. Wang has served as vice chairman and executive director since March 2021 and president of the Bank since February 2021. From January 2020 to February 2021, Mr. Wang served as vice chairman and executive director of Bank of China. From December 2019 to February 2021, Mr. Wang served as president of Bank of China. From March 2020 to February 2021, Mr. Wang concurrently served as vice chairman and non-executive director of BOC Hong Kong (Holdings) Limited. From July 2017 to November 2019, Mr. Wang served as vice-governor of Jiangsu Province. From August 2015 to July

2017, Mr. Wang served as executive vice president of Bank of Communications. From October 2002 to March 2015, Mr. Wang successively served as deputy general manager of Shandong Branch of the Bank, general manager of Hubei Branch of the Bank, general manager of Shanghai Branch of the Bank. Mr. Wang served as general manager of Dezhou Branch in Shandong Province of the Bank from September 2000 to October 2002 and deputy director of Credit Risk Management Division of Shandong Branch of the Bank from June 1999 to September 2000. Mr. Wang graduated from Xiamen University in 1999 with a doctoral degree in economics and Shandong Economics College in 1984 with a bachelor's degree in finance.

Xu Jiandong

Non-executive director

Mr. Xu has served as a non-executive director since June 2020. Mr. Xu has served as non-executive director of Agricultural Bank of China Limited from February 2015 to June 2020. Mr. Xu worked at the State Administration of Foreign Exchange from July 1986 to April 2015, during which, he served as deputy counsel of the Management and Inspection Department from June 2012 to April 2015, deputy director of the Financial Affairs Office of Jilin Province from April 2011 to June 2012, deputy counsel of the Balance of Payment Department from March 2004 to April 2011, division-chief of the Banking Management Division of the Balance of Payment Department from September 2000 to March 2004 and deputy division-chief of the Foreign Exchange Market Management Division of the Balance of Payment Department from September 1994 to September 2000. Mr. Xu Jiandong graduated from Central University of Finance and Economics with a bachelor's degree in finance in 1986. Mr. Xu is currently an employee of Huijin, the Bank's substantial shareholder.

Zhang Qi

Non-executive director

Mr. Zhang has served as a non-executive director since July 2017. Mr. Zhang has served as a non-executive director of Bank of China Limited from July 2011 to June 2017. Mr. Zhang served successively in the Central Expenditure Division One and Comprehensive Division of the Budget Department and Ministers' Office of the General Administration Department of the Ministry of Finance as well as the Operation Department of China Investment Corporation, serving as deputy division-chief, division-chief and senior manager from 2001 to 2011. Mr. Zhang studied in the Investment Department and Finance Department of Dongbei University of Finance & Economics from 1991 to 2001 and obtained his bachelor's degree, master's degree and Ph.D. degree in economics in 1995, 1998 and 2001 respectively. Mr. Zhang is currently a part-time doctoral supervisor at China Northeast University of Finance and Economics. Mr. Zhang is currently an employee of Huijin, the Bank's substantial shareholder.

Tian Bo

Non-executive director

Mr. Tian has served as a non-executive director since August 2019. Mr. Tian served as Deputy General Manager of Global Transaction Banking Department of Bank of China from January to August 2019. From March 2006 to January 2019, Mr. Tian was Division Head of Banking Business Department, Division Head and Assistant General Manager of Corporate Banking Department and Deputy General Manager of Global Trade Services Department of Bank of China. Concurrently, Mr. Tian also served as Member of the Standing Committee of the CPC Municipal Party Committee and Vice Mayor of Fangchenggang City of Guangxi Zhuang Autonomous Region from February 2016 to February 2018. Mr. Tian obtained a bachelor's degree in Economics from the Major of Finance of Beijing College of Finance and Trade in 1994 and a master's degree in Management from the Major of Accounting from Capital University of Economics and Business in 2004. Mr. Tian is currently an employee of Huijin, the Bank's substantial shareholder.

Xia Yang

Non-executive director

Mr. Xia has served as a non-executive director since August 2019. Mr. Xia served as general manager of the asset custody services department of Hua Xia Bank from January 2018 to September 2019. Since August 1997, Mr. Xia has been working in Hua Xia Bank, consecutively serving various positions including president of Jinan Branch, president of Hefei Branch etc. Mr. Xia is a senior economist and a senior accountant. Mr. Xia received a bachelor's degree in science from the biology department of Nanjing University in 1988, specialised in human and animal physiology; he graduated from Nanjing University with a doctoral degree in management sciences and engineering in 2018. Mr. Xia is currently an employee of Huijin, the Bank's substantial shareholder.

Shao Min

Non-executive director

Ms. Shao has served as a non-executive director since January 2021. Ms. Shao has served as senior counsel of the Supervision and Evaluation Bureau of Ministry of Finance from June 2019 to February 2021. From April 2019 to June 2019, Ms. Shao was counsel of the Supervision and Evaluation Bureau of Ministry of Finance. From September 2015 to April 2019, Ms. Shao was deputy director-general of the Accounting Department of Ministry of Finance. From June 2000 to September 2015, Ms. Shao consecutively served as deputy director, director and deputy director-general of the Supervision and Inspection Bureau of Ministry of Finance. From July 1998 to June 2000, Ms. Shao consecutively served as assistant consultant and deputy director of the Fiscal Supervision Department of Ministry of Finance. From August 1987 to July 1998, Ms. Shao consecutively served as cadre, officer, deputy chief officer, chief officer and assistant consultant of the Industrial Transportation Finance Department of Ministry of Finance. Ms. Shao Min graduated from school of accounting of Dongbei University of Finance and Economics with a bachelor's degree in economics in 1987. Ms. Shao is currently an employee of Huijin, the Bank's substantial shareholder.

Liu Fang

Non-executive director

Ms. Liu has served as a non-executive director since January 2021. Ms. Liu has served as deputy director-general of the General Affairs Department (Policy and Regulation Department) and counsel of SAFE from July 2019 to February 2021. From March 2015 to June 2019, Ms. Liu was deputy director-general of the General Affairs Department (Policy and Regulation Department) of SAFE. From July 2010 to February 2015, Ms. Liu consecutively served as deputy director and director of the General Affairs Department (Policy and Regulation Department) of SAFE. From March 2009 to July 2010, Ms. Liu was deputy director of the General Affairs Department of SAFE. From July 1999 to March 2009, Ms. Liu consecutively served as cadre, deputy chief officer, chief officer and deputy director of the International Balance of Payments Department of SAFE. Ms. Liu Fang graduated from Renmin University of China with a master's degree in economics in 1999, majoring in world economics of school of international economics. Ms. Liu is currently an employee of Huijin, the Bank's substantial shareholder.

Malcolm Christopher McCarthy

Independent non-executive director

Sir McCarthy has served as a director of the Bank since August 2017. Sir McCarthy served as independent non-executive director of Industrial and Commercial Bank of China Limited from December 2009 to October 2016. Sir McCarthy worked first as an economist for ICI before joining the UK Department of Trade and Industry where he held various posts from economic adviser to undersecretary. Sir McCarthy subsequently worked as a senior executive of Barclays Bank in London, Japan and then North America. Sir McCarthy served as chairman and chief executive of the Office of Gas and Electricity Markets (Ofgem), chairman of the Financial Services Authority, non-executive director of

Her Majesty's Treasury, Chairman of the board of directors of J.C. Flowers & Co. UK Ltd, a non-executive director of NIBC Holding N.V., NIBC Bank N.V., OneSavings Bank plc, Castle Trust Capital plc and Intercontinental Exchange ("**ICE**"), and Trustee of the Said Business School of Oxford University. Sir McCarthy is an Honorary Fellow of Merton College, an Honorary Doctorate of the University of Stirling and the Cass Business School, and a Freeman of the City of London. Sir McCarthy has a Master of Arts in History at Merton College of Oxford University, a PhD in Economics of Stirling University, and a Master's degree at the Stanford Graduate School of Business.

Kenneth Patrick Chung

Independent non-executive director

Mr. Chung has served as a director since November 2018. He served as independent non-executive director of Industrial and Commercial Bank of China Limited from December 2009 to March 2017. He joined Deloitte Haskins and Sells London Office in 1980, became a partner of PricewaterhouseCoopers in 1992, and was a financial service specialist of PricewaterhouseCoopers (Hong Kong and China) since 1996. Previously, he was the human resources partner of PricewaterhouseCoopers (Hong Kong), the responsible partner of the audit department of PricewaterhouseCoopers (Hong Kong and China), the global lead partner of the audit engagement team for Bank of China Limited, the honorary treasurer of the Community Chest of Hong Kong and was a member of the Ethics Committee, Limitation of Professional Liability Committee, Communications Committee, and the Investigation Panel of the Hong Kong Society of Accountants. Mr. Chung has also served as the audit head for the restructurings and initial public offerings of Bank of China Limited, Bank of China (Hong Kong) Limited and Bank of Communications, chairman of the audit committee of the Harvest Real Estate Investments (Cayman) Limited and independent non-executive director of Prudential Corporation Asia. Currently, Mr. Chung serves as independent non-executive director of Sands China Ltd., Prudential Hong Kong Limited and Prudential General Insurance Hong Kong Limited and is a trustee of Fu Tak Iam Foundation Limited. He is a member of the Institute of Chartered Accountants in England and Wales, a member of the Hong Kong Institute of Certified Public Accountants and a member of the Macau Society of Certified Practising Accountants. Mr. Chung received a bachelor's degree in economics from the University of Durham.

Graeme Wheeler

Independent non-executive director

Mr. Graeme Wheeler has served as director since October 2019. Mr. Wheeler has served as non-executive Director of Thyssen-Bornemisza Group since 2017. He served as Governor of the Reserve Bank of New Zealand from 2012 to 2017, non-executive director of Thyssen-Bornemisza Group and co-founder of Privatisation Analysis and Consulting Ltd from 2010 to 2012, managing director responsible for operations of World Bank from 2006 to 2010, vice president and treasurer of the World Bank from 2001 to 2006, director of Financial Products and Services Department of World Bank from 1997 to 2001, treasurer of New Zealand Debt management Office and deputy secretary to the New Zealand Treasury from 1993 to 1997, director of Macroeconomic Policy of New Zealand Treasury from 1990 to 1993, Economic and Financial Counsellor of New Zealand Delegation to the OECD, Paris, from 1984 to 1990 and an advisor in the New Zealand Treasury from 1973 to 1984. Mr. Graeme Wheeler obtained his master of commerce in economics from University of Auckland in 1972. Mr. Graeme Wheeler was awarded Companion of the New Zealand Order of Merit in 2018.

Michel Madelain

Independent non-executive director

Mr. Michel Madelain has served as director since January 2020. Mr. Madelain has been trustee of the IFRS Foundation since January 2018 and a member of the Supervisory Board of La Banque Postale in France since April 2018. From June 2016 to December 2018, he was vice chairman of Moody's Investors Service ("**MIS**"). Concurrently, he chaired the European Board of Moody's Corporation and was a member of MIS US Board. From May 2008 to June 2016, he was president and chief operating officer of MIS, having previously assumed a number of positions in Europe and the USA with MIS from 1994 to May 2008. From May 1980 to May 1994, he worked in Ernst & Young in Belgium and France and was promoted to the partnership in 1989. Mr. Madelain is a qualified Chartered Accountant of France. He obtained a master's degree in Management from Kellogg Graduate School of Management of Northwestern University (USA) and a bachelor's degree in Business Administration from the Ecole Supérieure de Commerce de Rouen, France.

William Coen

Independent non-executive director

Mr. William Coen has served as director since June 2021. Mr. Coen has been Chairman of the IFRS Advisory Council from February 2020, a member of the Board of Directors of the Toronto Leadership Centre since November 2019 and technical advisor of the International Monetary Fund since July 2019. Mr. Coen was affiliated with the Basel Committee on Banking Supervision ("**BCBS**") from 1999 to 2019. During this period of time, he was a member of the BCBS's Secretariat from 1999 to 2002 and was the content manager for the BIS Financial Stability Institute's web-based resource and learning tool from 2003 to 2006. He served as deputy secretary general of BCBS from 2007 to 2014 and was secretary general of BCBS from 2014 to June 2019, responsible for defining and implementing the BCBS's strategy and for overseeing progress of the BCBS's work, including the activities of its 30 working groups. Concurrently, he also chaired the BCBS's Policy Development Group, Task Force on Corporate Governance and the Coherence and Calibration Task Force. Prior to joining the BCBS Secretariat in 1999, he consecutively worked with the US Office of Comptroller of the Currency and held a number of roles related to banking policy, supervision and licensing at the US Board of Governors of the Federal Reserve System. Mr. Coen began his career in 1985 as a credit officer of a New York City-based bank, serving as an Assistant Vice President responsible for consumer credit and retail mortgage lending. Mr. Coen is currently a member of the Bretton Woods Committee, and a member of advisory board of Baton Systems, Inc., the lead regulatory consultant at Suade Labs and a vice chairman at Reference Point. He was a member of the Financial Stability Board and several of its standing committees. He obtained a bachelor's degree in Science from Manhattan College and a master's degree in Business Administration from Fordham University.

Leung Kam Chung, Antony

Independent non-executive director

Mr. Leung Kam Chung, Antony has served as director since October 2021. Mr. Leung, former Financial Secretary of the Hong Kong Special Administrative Region, is the chairman and chief executive officer of Nan Fung Group in Hong Kong, and the chairman and co-founder of New Frontier Group. In addition, Mr. Leung is the chairman of two charity organizations, namely Heifer Hong Kong and Food Angel. Mr. Leung had extensive experience in financial services, including chairman of Greater China Region of Blackstone Group, chairman of Asia for JP Morgan Chase and head of Private Banking for Asia, Investment Banking, Treasury Department and Great China Region of Citi. Mr. Leung has also served as independent non-executive director of China Merchants Bank, Industrial and Commercial Bank of China, China Mobile (Hong Kong) Limited and American International Assurance (Hong Kong) Limited, international advisor of China Development Bank and chairman of Hong Kong Association of Harvard Business School. Other public services that Mr. Leung had engaged in included non-official member of the Executive Council of the Hong Kong Special Administrative Region, chairman of the Education Commission, chairman of the University Grants Committee, member of the Exchange Fund Advisory Committee, director of Hong Kong Airport Authority and director of Hong Kong Futures Exchange, member of the Preparatory Committee and Election Committee for the Hong Kong Special Administrative Region and Hong Kong Affairs Advisors. Mr. Leung graduated from the University of Hong Kong in 1973 and attended Harvard Business School's Program for Management Development and Advanced Management Program. Mr. Leung was conferred an honorary doctor of law by the Hong Kong University of Science and Technology in 1998.

Supervisors

The following table sets forth certain information concerning the Bank's supervisors as at the date of this Offering Circular.

Name	Position
Wang Yongqing	Chairman of the Board of Supervisors, Shareholder representative supervisor
Yang Fenglai	Shareholder representative supervisor
Lin Hong	Shareholder representative supervisor
Wang Yi	Employee representative supervisor
Liu Jun	Employee representative supervisor
Deng Aibing.	Employee representative supervisor
Zhao Xijun.	External supervisor
Liu Huan	External supervisor
Ben Shenglin	External supervisor

Notwithstanding the disclosures mentioned in "*Directors, Supervisors and Senior Management – General*" section, no potential conflicts of interest exist between the obligations of the supervisors named above towards the Bank and their own interests or other obligations. The business address of each of the supervisors named above is No. 25, Financial Street, Xicheng District, Beijing, China 100033.

Wang Yongqing

Chairman of the Board of Supervisors, Shareholder representative supervisor

Mr. Wang has served as chairman of the board of supervisors of the Bank since October 2019. Mr. Wang has served as vice chairman of the China Federation of Industry and Commerce from December 2016 to July 2019. Mr. Wang has served consecutively as the deputy director (director-general level) and director of the fifth bureau, the director of the sixth bureau of the United Front Work Department of the Central Committee from December 2003 to November 2016. He served consecutively as deputy director of the general office, assistant to the general manager and director of the general office, chief accountant of China International Engineering Consulting Corporation from December 1998 to December 2003. He joined China Development Bank in July 1994. He joined and started to work in Financial Department of the Ministry of Railway in July 1985. Mr. Wang is a senior accountant. He graduated from Hubei Institute of Finance and Economics, he obtained a master's degree in economics from Renmin University of China and a PhD degree in economics from Beijing Jiaotong University.

Yang Fenglai

Shareholder representative supervisor

Mr. Yang has served as supervisor since June 2020. Mr. Yang has served as the general manager of Sichuan Branch of the Bank since June 2014. From July 2011 to April 2014, he served as the person in charge of the operation and management department of the Bank; from January 2005 to July 2011, he was the deputy general manager of Sichuan Branch of the Bank; from October 2003 to January 2005, he served as assistant general manager (deputy general manager level) of the Sichuan Branch of the Bank; from March 2003 to October 2003, he served as full-time credit approver (deputy general manager level) of credit approval department of the Bank; from April 2002 to March 2003, he served as full-time credit approver (deputy general manager level) of the credit approval office of the risk and internal control management committee of the Bank; from November 1994 to April 2002, he worked consecutively as the deputy chief of the credit division of Sichuan Branch of the Bank, deputy chief and chief of the credit management department of the head office, chief of credit risk management division, chief of credit operation division, general manager of the corporate business department of Sichuan Branch of the Bank. Mr. Yang is a senior economist. He graduated from University of Chengdu with a bachelor's degree in enterprise management in 1983 and obtained a master's degree in economics from Southwestern University of Finance and Economics in 2004.

Lin Hong

Shareholder representative supervisor

Mr. Lin has served as supervisor since December 2021. From May 2018, Mr. Lin served as general manager of the audit department of the Bank; from May 2017 to May 2018, Mr. Lin served as leader of the inspection team of China Construction Bank Committee of the Communist Party of China; from March 2015 to May 2017, Mr. Lin served as vice president of the Jiangxi branch of the Bank (department general manager of head office departments); from March 2007 to March 2015, Mr. Lin served as deputy secretary of the party discipline committee, deputy general manager of the disciplinary and supervisory department and deputy director of the inspection affairs office (department general manager of head office departments) of the Bank; from August 2001 to March 2007, Mr. Lin served as deputy general manager of the disciplinary and supervisory department of the Bank; from August 1993 to August 2001, Mr. Lin served consecutively in various positions including deputy division-chief and division-chief of comprehensive division of audit department of the Bank, office of the leading team of China Rural Development Trust and Investment Corporation under the trusteeship of the head office, the Bank's poverty alleviation team in Ankang and case inspection division of supervisory office of head office of the Bank. Mr. Lin is a senior accountant. Mr. Lin graduated from Jiangxi Finance and Economics College with a bachelor's degree in auditing in 1988. He graduated from Jiangxi University of Finance and Economics with a PhD degree in industrial economics in 2008.

Wang Yi

Employee representative supervisor

Mr. Wang has served as supervisor since May 2018. Mr. Wang has served as general manager of the housing finance and personal credit department of the Bank since November 2013. He served concurrently as chairperson of CCB Housing Services Co., Ltd. from December 2018 to November 2019. From November 2009 to November 2013, Mr. Wang served as deputy general manager of the personal savings and investment department of the Bank (equivalent to the department general manager of the Head Office); from December 2008 to November 2009, Mr. Wang served as deputy general manager of the personal savings and investment department of the Bank; from June 2005 to December 2008, Mr. Wang served as the deputy general manager of the personal finance department of the Bank. From July 2001 to June 2005, Mr. Wang served as the assistant general manager of the personal banking department of the Bank. From January 1992 to July 2001, Mr. Wang worked in the Qingdao Branch of the Bank, serving successively as deputy division-chief of the computer management division, deputy division-chief of the retail business division and division-chief of the electronic banking department as well as other positions. Mr. Wang is a senior engineer, and graduated from Shandong University with a bachelor's degree in computer mathematics in 1984. Mr. Wang also obtained a master's degree of business administration for senior management in 2010.

Liu Jun

Employee representative supervisor

Mr. Liu has served as supervisor since December 2021. Mr. Liu has served as general manager of Guangdong Branch of the Bank since December 2014. Mr. Liu served as head of Guangdong Branch of the Bank from November 2014 to December 2014, general manager of Shenzhen Branch of the Bank from April 2011 to November 2014, head of Shenzhen Branch of the Bank from March 2011 to April 2011, deputy general manager of Guangdong Branch of the Bank from September 2008 to March 2011, and assistant general manager of Guangdong Branch of the Bank from June 2006 to September 2008. Mr. Liu graduated from Anhui University with a bachelor's degree in law in 1986 and obtained a master's degree of business administration from Hong Kong Baptist University in 2003.

Deng Aibing

Employee representative supervisor

Mr. Deng has served as supervisor since December 2021. Mr. Deng has served as general manager of credit management department of the Bank since September 2015. Mr. Deng served as deputy general manager of credit approval department and general manager of credit department of the Bank (department general manager of headquarters) from June 2014 to September 2015, deputy general manager of credit approval department and general manager of credit department of the Bank (department deputy general manager of headquarters) from July 2013 to June 2014, chief risk officer of Beijing Branch of the Bank from June 2006 to July 2013, deputy director of risk management mechanism reform leading group of the Bank from February 2005 to June 2006, deputy general manager of Dalian Branch of the Bank from May 2003 to February 2005, deputy general manager of risk management department of the Bank from March 2003 to May 2003, and deputy general manager of credit risk management department of the Bank from March 2001 to March 2003. Mr. Deng is a senior economist. Mr. Deng graduated from Hubei Institute of Finance and Economics with a bachelor's degree in infrastructure finance and credit in 1984 and obtained a master's degree of business administration in finance from the Chinese University of Hong Kong in 2009.

Zhao Xijun

External supervisor

Mr. Zhao has served as external supervisor of the Bank since June 2019. He has been Deputy Dean of the School of Finance of Renmin University of China since 2005. Mr. Zhao was Director of International Office of Renmin University of China from 2001 to 2005, Department Head of the Finance Department of the School of Finance of Renmin University of China from 1995 to 2001 and a researcher fellow of the International Department of China Securities Regulatory Commission from 1994 to 1995. Mr. Zhao serves as an independent director of each of China National Foreign Trade Financial & Leasing Co., Ltd. and FAW Capital Holdings Co., Ltd. Mr. Zhao served as an independent non-executive director of the Bank from August 2010 to March 2014. Mr. Zhao was a visiting scholar in each of University of Sherbrooke and McGill University, Canada from 1989 to 1990 and Nijenrode University, Netherlands from 1995 to 1996. Mr. Zhao graduated from Wuhan University with a bachelor's degree in Scientific French in 1985, a master's degree in finance from the Finance Department of Renmin University of China in 1987 and a PhD in finance from the School of Finance of Renmin University of China in 1999.

Liu Huan

External supervisor

Mr. Liu has served as external supervisor since June 2020. Mr. Liu serves as Counselor of the State Council and professor at the School of Public Finance and Tax of Central University of Finance and Economics. From 2006 to 2016, he served as deputy dean of the School of Tax of Central University of Finance and Economics; from 1997 to 2006, he served consecutively as the deputy director of the Department of Tax of the Central University of Finance and Economics, and deputy dean of the School of Finance and Public Management; from 2004 to 2005, he worked consecutively on secondment as deputy director of Local Taxation Bureau in Xicheng district of Beijing, assistant director of the Beijing Local Taxation Bureau; he worked in the Central Institute of Finance and Banking (now Central University of Finance and Economics) since 1982, and served as deputy director of the Department of Finance from 1992 to 1997. Mr. Liu is a standing member of Beijing Municipal Committee of the Chinese People's Political and Consultative Conference and deputy director of the Economic Committee of the Beijing Municipal Committee of the Chinese People's Political and Consultative Conference; he also worked concurrently as visiting professor at the School of Economics and Management of Tsinghua University, visiting professor at the School of Overseas Education of Shanghai Jiao Tong University and master advisor of Tax in University of Chinese Academy of Social Sciences. He also served as independent director of the Liaoning Wellhope Agri-Tech Group Company. Mr. Liu is a certified public accountant and obtained his bachelor's degree in economics from the Central Institute of Finance and Banking in 1982.

Ben Shenglin

External supervisor

Mr. Ben has served as external supervisor since June 2020. Mr. Ben has served as professor and doctoral advisor of Zhejiang University since May 2014, the executive director of the International Monetary Institute of Renmin University of China since January 2014, and the co-director of the International Monetary Institute since July 2018; He served as dean of Academy of Internet Finance of Zhejiang University since April 2015; dean of the International Business School of Zhejiang University since October 2018. From April 2010 to April 2014, he served as the chief executive officer and a member of the global leadership team at global corporate bank of J.P. Morgan Chase Bank (China); from February 2005 to March 2010, he served as the head of financial institutions department and head of industrial commercial banking department and other positions of HSBC in China; from September 1994 to January 2005, he served as general manager of liquidity business of Dutch Bank in China. Mr. Ben currently serves as an independent director of China International Capital Corporation Limited, Wuchan Zhongda Group Co., Ltd. and Home Credit B.V., and an independent director of Industrial Bank Co., Ltd since August 2021. Mr. Ben is a standing member of Zhejiang Provincial Committee of the Chinese People's Political and Consultative Conference and holds social positions such as the co-chairman of the Zhejiang Internet Finance Association. Mr. Ben graduated from Tsinghua University in 1987 with a bachelor's degree in engineering. He obtained a master's degree in enterprise management from Renmin University of China in 1990 and a PhD degree in economics from Purdue University in 1994.

Senior Management

The following table sets forth certain information concerning the Bank's senior management as at the date of this Offering Circular.

Name	Position
Wang Jiang	President
Zhang Min	Executive vice president
Wang Hao	Executive vice president
Ji Zhihong	Executive vice president
Li Yun	Executive vice president
Jin Panshi	Chief information officer
Cheng Yuanguo	Chief risk officer
Hu Changmiao	Secretary to the board

Notwithstanding the disclosures mentioned in "*Directors, Supervisors and Senior Management – General*" section, no potential conflicts of interest exist between the obligations of the senior managers named above towards the Bank and their own interests or other obligations. The business address of each of the senior managers named above is No. 25, Financial Street, Xicheng District, Beijing, China 100033.

Wang Jiang

Vice chairman, executive director, president

See "*Directors*".

Zhang Min

Executive vice president

Ms. Zhang has served as an executive vice president of the Bank since December 2020. Ms. Zhang was general manager of Tianjin Branch of the Bank and dean of North China Campus of CCB University from December 2018 to November 2020. She was general manager of Tianjin Branch of the Bank from July to December 2018, general manager of Ningxia Branch of the Bank from March 2017 to July 2018, deputy general manager of Hubei Branch of the Bank from November 2015 to December 2016, deputy general manager of Shaanxi Branch of the Bank from July 2013 to November 2015 and was assistant general manager of Shaanxi Branch of the Bank, general manager of Accounting and Settlement Department, general manager of Accounting Department, director of the Treasury Management Centre, and general manager of Xi'an Xingqinglu Sub-branch, etc. Ms. Zhang Min is a senior accountant. She took undergraduate study in accounting in East China Institute of Engineering from September 1988 to July 1992. She obtained a Master's degree in economics from Shaanxi Institute of Finance and Economics in July 1996, majoring in Accounting. She obtained a Ph.D. degree in economics from Xi'an Jiaotong University in July 2013, majoring in applied economics.

Wang Hao

Executive vice president

Mr. Wang has served as an executive vice president of the Bank since October 2020. Mr. Wang was general manager of Hubei Branch of the Bank and dean of Central China Campus of CCB University from December 2018 to July 2020 and general manager of Hubei Branch of the Bank from June to December 2018. He was general manager of Guizhou Branch of the Bank from August 2016 to June 2018, deputy general manager of Qinghai Branch of the Bank from August 2014 to June 2016, deputy general manager of Sichuan Branch of the Bank from October 2008 to August 2014, assistant general manager of Sichuan Branch of the Bank from October 2005 to October 2008, general manager of Mianyang Branch in Sichuan Province of the Bank from July 2004 to October 2005, general manager of Personal Banking Department and Credit Card Center of Sichuan Branch of the Bank from April 2004 to July 2004, general manager of Personal Banking Department of Sichuan Branch of the Bank from December 2001 to April 2004, deputy division-chief in charge of work of Personal Banking Department of Sichuan Branch of the Bank from November 2000 to December 2001 and successively served as assistant general manager and deputy general manager of the Sub-branch under direct administration of Sichuan Branch of the Bank from December 1996 to November 2000. He started working in the Sub-branch under direct administration of Sichuan Branch of the Bank in July 1993. Mr. Wang is an economist. He graduated and obtained his bachelor's degree in Marketing from Southwestern University of Finance and Economics in July 1993.

Ji Zhihong

Executive vice president

Mr. Ji has served as an executive vice president of the Bank since August 2019. Mr. Ji was Director-general of the Financial Market Department of the PBOC from August 2013 to May 2019, during which Mr. Ji was concurrently Director of the Financial Market Management Department of the PBOC Shanghai Head Office from August 2013 to May 2016. From September 2012 to August 2013, Mr. Ji was Director-general of the Research Bureau of the PBOC. From April 2010 to September 2012, Mr. Ji was Deputy Director-general of the Monetary Policy Department of the PBOC. From February 2008 to April 2010, Mr. Ji was Deputy Director (Deputy Director-general Level) of the Open Market Operations Department of the PBOC Shanghai Head Office. Mr. Ji Zhihong is a Researcher. He graduated from the PBOC School of Finance, Tsinghua University (formerly known as the Graduate School of the PBOC Head Office) with a master's degree in International Finance in 1995 and obtained a PhD degree in National Economics from the Chinese Academy of Social Sciences in 2005.

Li Yun

Executive vice president

Mr. Li has served as an executive vice president of the Bank since November 2021. Mr. Li was general manager of Guizhou Branch of Agricultural Bank of China Limited ("**ABC**") from November 2017 to August 2021, head of Guizhou Branch of ABC from July 2017 to November 2017, general manager of the Asset and Liability Management Department/Sannong Capital and Fund Management Center of ABC from May 2015 to July 2017, deputy general manager in charge of work of the Strategic Planning Department of ABC from April 2014 to May 2015, deputy general manager of the Strategic Planning Department of ABC from May 2011 to April 2014, deputy general manager of the Strategic Management Department of ABC from December 2010 to May 2011. Mr. Li worked at the Research Office and the Office of the Board of Directors/Office of the Joint-Stock System Reform Leading Group of Agricultural Bank of China from July 2000 to December 2010 successively. Mr. Li is a senior economist with special grants by the PRC government. Mr. Li graduated from Wuhan University with a master's degree in Currency and Banking in September 1997 and obtained a PhD in World Economics from the same university in July 2000.

Jin Panshi

Chief information officer

Mr. Jin has served as the chief information officer since March 2021. Mr. Jin has served as information controller of the Bank since February 2018. He served as general manager of the information technology management department of the Bank from January 2010 to February 2018, general manager of the audit department of the Bank from December 2007 to January 2010, deputy director of the Board of Supervisors Office from November 2004 to December 2007, supervisor of the Bank from October 2004 to November 2016, and deputy general manager of the audit department of the Bank from June 2001 to October 2004. Mr. Jin is a senior engineer and a Certified Information Systems Auditor. He graduated from Jilin University of Technology with a bachelor's degree and a master's degree in computer application in 1986 and 1989 respectively, and obtained an EMBA degree from Tsinghua University in 2010.

Cheng Yuanguo

Chief risk officer

Mr. Cheng has served as chief risk officer of the Bank since April 2021. Mr. Cheng has served as general manager of the corporate business department of the Bank since February 2017. He served as employee representative supervisor of the Bank from May 2018 to March 2021. He concurrently served as chairman of CCB Trust from August 2017 to July 2018. He served as general manager of Hebei Branch of the Bank from August 2014 to February 2017, general manager of the group clients department (the banking business department) of the Bank from March 2011 to July 2014. He concurrently served as director of CCB International from September 2010 to October 2015. He served as deputy general manager of the group clients department (the banking business department) of the Bank from May 2005 to March 2011 and deputy general manager of the banking business department of the Bank from September 2001 to May 2005. Mr. Cheng is a senior accountant with special grants by the PRC government. Mr. Cheng graduated from Dongbei University of Finance and Economics with a bachelor's degree in infrastructure finance and credit in 1986.

Hu Changmiao

Secretary to the board

Mr. Hu has served as the secretary to the board since May 2019. Mr. Hu has served as general manager of the Board Office of the Bank since December 2018. He served as the chairman of CCB Financial Leasing Co., Ltd. from August 2016 to December 2018, general manager of Guangxi Branch of the Bank from February 2012 to August 2016, general manager of Public Relations & Corporate Culture Department of the Bank from March 2006 to February 2012, and deputy general manager in charge of the overall management of the Board Office of the Bank from June 2005 to March 2006. He served as deputy general manager of the Executive Office of the Bank from December 2004 to June 2005, deputy general manager of Credit Card Centre of the Bank from March 2003 to December 2004, and deputy general manager of Retail Banking Department of the Bank from July 2001 to March 2003. Mr. Hu is a senior economist. He graduated from the Peking University with a master of science in economic geography in 1986.

Company Secretary

Ma Chan-Chi

Company secretary

Mr. Ma is a Hong Kong resident and was appointed as the company secretary of the Bank on 29 August 2014. He obtained his Master Degree in Business Administration from the University of Strathclyde in 1995 and the qualifications of the Hong Kong Institute of Certified Public Accountants. He joined CCB Asia in 2010 and currently serves as its Deputy Chief Executive and Chief Financial Officer. He has more than 30 years of corporate financial and legal affairs experience. Prior to joining CCB Asia, he was the Chief Financial Officer & Secretary to the Board of Hang Seng Bank (China) Limited and the Chief Financial Officer of Nanyang Commercial Bank (China) Limited.

Board Committees

The Board delegates certain responsibilities to various committees. The Board has established a strategy development committee, audit committee, risk management committee, nomination and remuneration committee, and social responsibilities and related party transactions committee. These committees are constituted by certain directors and report to the Board. Each committee meets at least four times a year.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2021, the Bank had a total of 378,681 ordinary shareholders, of which 40,321 were holders of H-shares and 338,360 were holders of A-shares.

HUIJIN

Central Huijin Investment Ltd. ("**Huijin**") is the controlling shareholder of the Bank. Huijin is a wholly state-owned investment company established in accordance with the "Company Law of the PRC" on 16 December 2003 with the approval of the State Council. Its Chairman is Mr. Peng Chun. Huijin makes equity investments in key state-owned financial institutions as authorised by the State Council, and exercises the contributor's rights and obligations in the Bank up to its contribution on behalf of the state to achieve preservation and appreciation of state-owned financial assets.

Huijin does not engage in any other commercial activities, nor does it interfere with the daily operations of the key state-owned financial institutions in which it holds controlling shares. Systems and controls are in place to manage any conflict of interest that might arise between the interests of Huijin and the interests of the Bank and to ensure that its control is not abused.

As at 30 June 2021, Huijin held approximately 57.11 per cent. of the shares of the Bank, and indirectly held 0.20 per cent. of the shares of the Bank through its subsidiary, Central Huijin Asset Management Co., Ltd.

As at 30 June 2021, there were no other corporate shareholders holding 10 per cent. or more of the shares of the Bank (excluding HKSCC Nominees Limited, which acts as the common nominee for the shares held through the Central Clearing and Settlement System). All transactions and relationships between the Bank and its substantial shareholders are conducted on an arm's length basis and on normal contractual terms. The Bank can operate its business independently of its substantial shareholders.

REGULATION AND SUPERVISION IN THE PRC

The banking industry is heavily regulated in the PRC, with the CBIRC and PBOC acting as the principal regulatory authorities. the CBIRC is primarily responsible for supervising and regulating banking and insurance institutions, and PBOC, as the central bank of the PRC, is primarily responsible for formulating and implementing monetary policies. The applicable laws and regulations governing activities in the PRC's banking industry consist principally of the PRC PBOC Law, the PRC Commercial Banking Law, the Law of PRC on Supervision and Administration of Banking Sector, and the rules and regulations promulgated thereunder.

PRINCIPAL REGULATORS

Prior to April 2003, PBOC acted as both the PRC's central bank and the principal supervisor and regulator of the banking industry in the PRC. In April 2003, China Banking Regulatory Commission was established to serve as the primary banking industry regulator and it assumed the majority of bank regulatory functions from PBOC. PBOC retained its role as the central bank but now has a smaller role in the regulation of banking institutions. In April 2018, China Banking Regulatory Commission and China Insurance Regulatory Commission were merged as China Banking and Insurance Regulatory Commission, covering the regulation of banking and insurance sectors in the PRC.

CBIRC

Functions and Powers

The CBIRC is the primary supervisory authority responsible for the regulation of banking institutions operating in the PRC, including branches and representative offices established by foreign financial institutions in the banking sector in the PRC.

According to the Law of PRC on Supervision and Administration of Banking Sector, the main responsibilities of the CBIRC in relation to banking regulation include:

(1) formulating and promulgating rules and regulations governing banking institutions and their business activities;

(2) reviewing and approving the establishment, change, dissolution and business scope of banking institutions, as well as granting banking licences for commercial banks, their branches and subsidiaries, branches and representative offices of foreign banks in the PRC;

(3) regulating the business activities of banking institutions, including the products and services they offer;

(4) setting qualification requirements for, and approving or overseeing the nomination of, directors and senior management personnel of banking institutions;

(5) setting guidelines and standards for internal controls, risk exposure and corporate governance of, and disclosure requirements for, banking institutions;

(6) conducting on-site inspection and off-site surveillance of the business activities and risk exposure status of banking institutions;

(7) monitoring the financial condition of banking institutions, including establishing standards or requirements for capital adequacy, asset quality and other financial metrics;

(8) imposing corrective and punitive measures for violations of applicable banking regulations;

(9) formulating prudential regulation principles of banking sector in accordance with laws and administrative regulations;

(10) working with authorities (including the PBOC and the MOF);

(11) establishing emergency disposal mechanisms and dealing with any emergencies in the banking sector;

(12) guiding and conducting surveillance on the activities of banking self-disciplinary organisations; and

(13) carrying out international communication and cooperation activities related to supervisions of the banking sector.

Examination and Supervision

The CBIRC, through its head office in Beijing and offices in each province, provincial-level municipality and autonomous region, monitors the operations of commercial banks and their branches through on-site inspections and off-site surveillance. On-site inspections generally include visiting the banks' premises, interviewing bank employees, senior management and directors, as well as reviewing documents and materials maintained by the banks. the CBIRC also conducts off-site surveillance by reviewing financial and other reports regularly submitted by the banks. Off-site surveillance generally includes the surveillance of banks' business activities and risk exposure status to evaluate and analyse the operational risk of the banks. If a banking institution is not in compliance with a regulation, the CBIRC has the power to issue corrective and punitive measures, including imposition of fines, suspension of certain business activities, restrictions on distributions of dividends and other income and asset transfers, closure of the institution and other penalties.

PBOC

As the central bank of the PRC, PBOC is responsible for formulating and implementing monetary policies and maintaining the stability of the financial markets. According to the PRC PBOC Law, PBOC is empowered to do the following:

(1) drafting and enforcing relevant laws, rules and regulations that are related to fulfilling its functions;

(2) formulating and implementing monetary policy in accordance with law;

(3) issuing the Renminbi and administering its circulation;

(4) regulating the inter-bank lending market and the inter-bank bond market;

(5) implementing foreign exchange management, supervising inter-bank foreign exchange market;

(6) supervising and regulating gold market;

(7) holding and managing the state foreign exchange and gold reserves;

(8) managing the State treasury as fiscal agent;

(9) making payment and settlement rules in collaboration with relevant departments and ensuring normal operation of the payment and settlement systems;

(10) providing guidance to anti-money laundering work in the financial sector and monitoring money-laundering related suspicious fund movement;

(11) developing statistics system for the financial industry and responsible for the consolidation of financial statistics as well as the conduct of economic analysis and forecast; and

(12) participating in international financial activities at the capacity of the central bank.

OTHER REGULATORY AUTHORITIES

In addition to the CBIRC and PBOC, commercial banks in the PRC are also subject to the supervision and regulation by other regulatory authorities including, among others, SAFE and the CSRC. For example, in conducting foreign exchange business, banks are subject to the regulation of SAFE; and in dealing with securities-related matters such as distributing securities investment funds or acting as the custodians of investment assets of securities institutional investors, banks are subject to the regulation of the CSRC.

REGULATIONS REGARDING CAPITAL ADEQUACY

Capital Adequacy Guidelines

In June 2012, the previously-named China Banking Regulatory Commission (now called the CBIRC) issued the CBIRC Capital Regulations regulating capital adequacy ratios ("**CAR**") of PRC commercial banks. The CBIRC Capital Regulations, which are intended to reflect the Basel III regulatory capital requirements, set out minimum CAR requirements for commercial banks and provide detailed guidelines on the calculation of "capital" and "risk-weighted assets". The overall CAR requirements are 11.5 per cent. for systematically important commercial banks and 10.5 per cent. for other commercial banks. Commercial banks in the PRC are required to have a CAR of not less than 8 per cent., Tier 1 CAR of not less than 6 per cent. and Core Tier 1 CAR of not less than 5 per cent. The CARs are calculated in accordance with the CBIRC Capital Regulations as follows:

$$\text{Capital Adequacy Ratio} = \frac{\text{Total Capital} - \text{deductions from corresponding capital instruments}}{\text{Risk} - \text{weighted Assets}} \times 100 \text{ per cent.}$$

$$\text{Tier 1 Capital Adequacy Ratio} = \frac{\text{Tier 1 Capital} - \text{deductions from corresponding capital instruments}}{\text{Risk} - \text{weighted Assets}} \times 100 \text{ per cent.}$$

$$\text{Core Tier 1 Capital Adequacy Ratio} = \frac{\text{Core Tier 1 Capital} - \text{deductions from corresponding capital instruments}}{\text{Risk} - \text{weighted Assets}} \times 100 \text{ per cent.}$$

In 29 November 2012, the previously-named China Banking Regulatory Commission (now called the CBIRC) further released the Guiding Opinion on Commercial Banks' Innovation on Capital Instruments (the "**2012 Guiding Opinions**"), setting out the general principles of the innovation of capital instruments of commercial banks and criteria of qualified capital instruments. In 22 November 2019, the 2012 Guiding Opinions was abolished by the CBIRC and was superseded by the 2019 Guiding Opinions.

Determination of Non-Viability Triggering Events

The loss-absorption provisions for the Bonds are triggered by a Non-Viability Triggering Event, which is determined at the discretion by the relevant authorities governing the Bank. More specifically, "Non-Viability Triggering Event" means the occurrence of the earlier of either:

(a) the CBIRC having decided that a Write-off is necessary, without which the Bank would become non-viable; or

(b) any relevant authority having decided that a public sector injection of capital or equivalent support is necessary, without which the Bank would become non-viable.

As at the date of this Offering Circular, to the Bank's knowledge, pursuant to Paragraph 2(1) of the 2019 Guiding Opinions, the relevant authorities regarding paragraph (b) in the definition above are those which may determine whether a public sector injection of capital or equivalent support is necessary, which include the State Council, MOF, PBOC and the CBIRC. In making such determination (regarding paragraph (b) in the definition above), the relevant authorities may consult each other and/or seek joint agreement among themselves. The CBIRC Capital Regulations and the 2019 Guiding Opinions will be subject to interpretation and application by the CBIRC and the relevant authorities.

TAXATION

The following summary of certain taxation provisions under the PRC and Hong Kong laws is based on current law and practice. It does not purport to be comprehensive and does not constitute legal or tax advice. Prospective investors should consult their own tax advisers regarding the tax consequences of an investment in the securities.

PRC TAXATION

Income Tax

Pursuant to the "PRC Enterprise Income Tax Law" and the "PRC Individual Income Tax Law" as well as their respective implementation rules, an income tax is levied on the payment of interest in respect of debt securities, including bonds issued by enterprises established within the territory of China to non resident enterprises (including Hong Kong enterprises) and non-resident individuals (including Hong Kong resident individuals). The current rates of such income tax are 20 per cent. (for non-resident individuals) and 10 per cent. (for non-resident enterprises) of the gross amount of the interest unless there is an applicable tax treaty between the PRC and the jurisdiction in which the holders reside that reduces or exempts such PRC income tax. However, the tax so charged on interest paid on the Bonds to non-PRC holders which, or who, are residents of Hong Kong (including enterprises and individuals) for purposes of the avoidance of the double taxation arrangement between China and Hong Kong will be 7 per cent. of the gross amount of the interest pursuant to the arrangement between China and Hong Kong. The Issuer shall withhold such income tax at the applicable rates in respect of the interest payable on the Bonds and pay such income tax to the PRC tax authorities on behalf of the holders in accordance with the applicable tax laws and regulations. The Bank shall in respect of these withholding taxes pay additional amounts to the investors of the Bonds in accordance with the Terms and Conditions of the Bonds so that the Bondholders receive the full amount of the scheduled payment, as further set out in the Terms and Conditions of the Bonds.

According to the "PRC Enterprise Income Tax Law" and the "PRC Individual Income Tax Law" and their implementation rules, it is unclear whether the capital gains of non-resident enterprises and non resident individuals derived from a sale or exchange of the Bonds will be subject to PRC income tax. If such capital gains are determined as income sourced in China by PRC tax authority, those non-resident holders may be subject to enterprise income tax at a rate of 10 per cent. or individual income tax at a rate of 20 per cent. of the gross proceeds unless there is an applicable tax treaty between the PRC and the jurisdiction in which the relevant non-resident holders reside which reduces or exempts such income tax. According to the double taxation arrangement between China and Hong Kong, residents of Hong Kong (including enterprise and individual) will not be subject to PRC tax on any capital gains derived from a sale or exchange of the Bonds.

Value-added Tax

Circular 36 confirms that business tax will be completely replaced by VAT from 1 May 2016. Since then, the income derived from the provision of financial services which attracted business tax will be entirely replaced by, and subject to, VAT.

According to the Tentative Regulations on the Value-added Tax of the PRC which was introduced by the State Council on 10 November 2008 and amended by the State Council on 19 November 2017 and the Circular 36, the entities and individuals providing the services within China shall be subject to VAT. The services are treated as being provided within China where either the service provider or the service recipient is located in China. The services subject to VAT include the provision of financial services such as the provision of loans. It is further clarified under Circular 36 that the "loans" refers to the activity of lending capital for another's use and receiving the interest income thereon. Based on the definition of "loans" under Circular 36, the issuance of Bonds is likely to be treated as the holders of the Bonds providing loans to the Issuer, which thus shall be regarded as financial services subject to VAT. Further, given that the Issuer is located in the PRC, the Bondholders would be regarded as providing the financial services within China and consequently, the Bondholders shall be subject to VAT at the rate of 6 per cent. when receiving the interest payments under the Bonds. The Bank shall in respect of the VAT pay additional amounts to the investors of the Bonds in accordance with the Terms and Conditions of the Bonds so that the Bondholders receive the full amount of the scheduled payment, as further set out in the Terms and Conditions of the Bonds.

Where a holder of the Bonds who is an entity or individual located outside of the PRC resells the Bonds to an entity or individual located outside of the PRC and derives any gain, since neither the service provider nor the service recipient is located in the PRC, theoretically Circular 36 does not apply and the Issuer does not have the obligation to withhold the VAT. However, there is uncertainty as to the applicability of VAT if either the seller or buyer of Bonds is located inside the PRC.

No PRC stamp duty will be imposed on non-PRC Bondholders either upon issuance of the Bonds or upon a subsequent transfer of Bonds to the extent that the register of holders of the Bonds is maintained outside the PRC and the issuance and the sale of the Bonds is made outside of the PRC.

Hong Kong Taxation

Withholding Tax

Under existing Hong Kong law, payments of principal and interest in respect of the Bonds may be made without withholding for or on account of any Hong Kong taxes. In addition, no tax is withheld in Hong Kong in respect of any gains arising from resale of the Bonds.

Stamp Duty

The Bonds are not subject to Hong Kong stamp duty either upon issue or on any subsequent transfer.

Profits Tax

Hong Kong profits tax is chargeable on every person carrying on a trade, profession or business in Hong Kong in respect of profits arising in or derived from Hong Kong from such trade, profession or business (excluding profits arising from the sale of capital assets).

Under the Inland Revenue Ordinance (Cap. 112) of Hong Kong (the "**Inland Revenue Ordinance**") as it is currently applied by the Inland Revenue Department, interest on the Bonds may be deemed to be profits arising in or derived from Hong Kong from a trade, profession or business carried on in Hong Kong in the following circumstances:

(a) interest on the Bonds is received by or accrues to a financial institution (as defined in the Inland Revenue Ordinance) and arises through or from the carrying on by the financial institution of its business in Hong Kong; or

(b) interest on the Bonds is derived from Hong Kong and is received by or accrues to a corporation carrying on a trade, profession or business in Hong Kong; or

(c) interest on the Bonds is derived from Hong Kong and is received by or accrues to a person other than a corporation, carrying on a trade, profession or business in Hong Kong and is in respect of the funds of that trade, profession or business; or

(d) interest on the Bonds is received by or accrues to a corporation, other than a financial institution, and arises through or from the carrying on in Hong Kong by the corporation of its intra-group financing business (within the meaning of section 16(3) of the Inland Revenue Ordinance).

Sums derived from the sale, disposal or redemption of the Bonds 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 Bonds are acquired and disposed of.

Sums received by or accrued to a financial institution by way of gains or profits arising through or from the carrying on by the financial institution of its business in Hong Kong from the sale, disposal and redemption of the Bonds 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 Inland Revenue Ordinance) from the sale, disposal or other redemption of Bonds will be subject to Hong Kong profits tax.

FATCA

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a "foreign financial institution" may be required to withhold on certain payments it makes ("**foreign passthru payments**") to persons that fail to meet certain certification, reporting, or related requirements.

The Issuer may be a foreign financial institution for these purposes. A number of jurisdictions have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("**IGAs**"), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the offshore restricted shares, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Bonds, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Bonds, such withholding would not apply prior to the date that is two years after the publication of the final regulations defining "foreign passthru payment" and Bonds characterised as debt (or which are not otherwise characterised as equity and have a fixed term) for U.S. federal tax purposes that are issued on or prior to the date that is six months after the date on which final regulations defining "foreign passthru payments" are filed with the U.S. Federal Register generally would be "grandfathered" for purposes of FATCA withholding unless materially modified after such date. Holders should consult their own tax advisers regarding how these rules may apply to their investment in the Bonds.

SUBSCRIPTION AND SALE

The Bank has entered into a subscription agreement dated 13 January 2022 with CCB International Capital Limited, China International Capital Corporation Hong Kong Securities Limited, Citigroup Global Markets Limited, Deutsche Bank AG, Hong Kong Branch, China Construction Bank (Asia) Corporation Limited, China Construction Bank (Europe) S.A., China Construction Bank Corporation Singapore Branch, BNP Paribas, CLSA Limited, Crédit Agricole Corporate and Investment Bank, The Hongkong and Shanghai Banking Corporation Limited and Standard Chartered Bank (collectively, the "**Managers**") (the "**Subscription Agreement**"), pursuant to which and subject to certain conditions contained in the Subscription Agreement, the Bank agreed to sell to the Managers, and the Managers severally and not jointly agreed to subscribe or procure purchasers or subscribers to subscribe for the Bonds in the proportions indicated in the following table at the Issue Price (being 99.764 per cent. of their principal amount). Any subsequent offering of the Bonds to investors may be at a price different from the Issue Price.

	Principal amount of Bonds to be subscribed
	(U.S.$)
CCB International Capital Limited	420,000,000
China International Capital Corporation Hong Kong Securities Limited	420,000,000
Citigroup Global Markets Limited	420,000,000
Deutsche Bank AG, Hong Kong Branch	420,000,000
China Construction Bank (Asia) Corporation Limited	40,000,000
China Construction Bank (Europe) S.A.	40,000,000
China Construction Bank Corporation Singapore Branch	40,000,000
BNP Paribas	40,000,000
CLSA Limited	40,000,000
Crédit Agricole Corporate and Investment Bank	40,000,000
The Hongkong and Shanghai Banking Corporation Limited	40,000,000
Standard Chartered Bank	40,000,000
Total	2,000,000,000

The Subscription Agreement provides that the Bank has agreed to pay the Managers customary fees and commissions and to reimburse the Managers its out-of-pocket expenses in connection with the initial sale and distribution of the Bonds, and that the Bank will indemnify the Managers and their affiliates against certain liabilities in connection with the offer and sale of the Bonds. The Subscription Agreement provides that the obligations of the Managers are subject to certain conditions precedent and entitles the Managers to terminate it in certain circumstances prior to payment being made to the Bank.

The Managers and their respective subsidiaries and affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities ("**Banking Services and/or Transactions**"). The Managers and certain of their respective subsidiaries and affiliates may have, from time to time, performed, and may in the future perform, various Banking Services and/or Transactions with the Bank and/or its affiliates for which they have received, or will receive, fees and expenses.

In connection with the offering of the Bonds (the "**Offering**"), some of the Managers and/or their respective affiliates, or affiliates of the Bank, may act as investors and place orders, receive allocations and trade Bonds for their own account and such orders and/or allocations and/or trading of the Bonds may be material. Such entities may hold or sell such Bonds or purchase further Bonds for their own account in the secondary market or deal in any other securities of the Bank, and therefore, they may offer or sell the Bonds or other securities otherwise than in connection with the Offering. Accordingly, references herein to the Bonds being "offered" should be read as including any offering of the Bonds to such Managers and/or their respective affiliates, or affiliates of the Bank, 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 Bonds. If this is the case, the trading price and liquidity of trading in the Bonds may be constrained (see "*Risk Factors – Risks Relating to the Bonds – An active trading market for the Bonds may not develop*"). The Bank and the Managers are under no obligation to disclose the extent of the distribution of the Bonds amongst individual investors otherwise than in accordance with any legal or regulatory obligation to do so.

In the ordinary course of their various business activities, some of the Managers and their respective affiliates make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers, and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the Bank, including the Bonds. Such persons do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so. Some of the Managers or their affiliates that have a lending relationship with the Bank routinely hedge their credit exposure to the Bank consistent with their customary risk management policies. Typically, such Managers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in the Bank's securities, including potentially the Bonds offered hereby. Any such short positions could adversely affect future trading prices of the Bonds offered hereby. The Managers and their affiliates may make investment recommendations and/or publish or express independent research views (positive or negative) in respect of the Bonds or other financial instruments of the Bank, and may recommend to their clients that they acquire long and/or short positions in the Bonds or other financial instruments of the Bank.

In connection with the issue of the Bonds, any Manager appointed and acting in its capacity as stabilisation manager (the "**Stabilisation Manager**") or any person acting on behalf of the Stabilisation Manager may, to the extent permitted by applicable laws and directives, over allot the Bonds or effect transactions with a view to supporting the price of the Bonds at a level higher than that which might otherwise prevail, but in so doing, the Stabilisation Manager or any person acting on behalf of the Stabilisation Manager shall act as principal and not as agent of the Bank. However, there is no assurance that the Stabilisation Manager or any person acting on behalf of the Stabilisation Manager will undertake stabilisation action. Any loss or profit sustained as a consequence of any such overallotment or stabilisation shall be for the account of the Managers.

General

The distribution of this Offering Circular or any offering material and the offering, sale or delivery of the Bonds 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.

No action has been taken or will be taken in any jurisdiction by the Bank or any Manager that would or is intended to permit a public offering of the Bonds, or possession or distribution of this Offering Circular (in proof or final form) or any amendment or supplement thereto or any other offering or publicity material relating to the Bonds, in any country or jurisdiction where action for that purpose is required.

If a jurisdiction requires that the offering be made by a licensed broker or dealer and any Manager or any affiliate of the Managers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by such Manager or such affiliate on behalf of the Issuer in such jurisdiction.

THE BONDS ARE OFFERED TO PROFESSIONAL INVESTORS ONLY AND ARE NOT SUITABLE FOR RETAIL INVESTORS. INVESTORS SHOULD NOT PURCHASE THE BONDS IN THE PRIMARY OR SECONDARY MARKETS UNLESS THEY ARE PROFESSIONAL INVESTORS. THE BONDS ARE COMPLEX FINANCIAL INSTRUMENTS AND OF HIGH RISKS AND ARE NOT A SUITABLE OR APPROPRIATE INVESTMENT FOR ALL INVESTORS. INVESTING IN THE BONDS INVOVLES CERTAIN RISKS, INCLUDING THE RISK IN RELATION TO THEIR SUBORDINATION AND THE CIRCUMSTANCES IN WHICH HOLDERS COULD LOSE THEIR ENTIRE INVESTMENT IN THE BONDS. POTENTIAL INVESTORS SHOULD READ THE WHOLE OF THIS DOCUMENT, IN PARTICULAR THE "RISK FACTORS" SET OUT ON PAGES 13 TO 42 FOR FURTHER INFORMATION.

United States

The Bonds have not been and will not be registered under the Securities Act and subject to certain exceptions, the Bonds may not be offered or sold within the United States.

The Bonds are being offered and sold outside of the United States in reliance on Regulation S.

In addition, until 40 days after the commencement of the offering of the Bonds, an offer or sale of Bonds within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

People's Republic of China

Each Manager has represented, warranted and agreed that the Bonds are not being offered or sold and may not be offered or sold, directly or indirectly, in the PRC (for such purposes, not including Hong Kong and Macau Special Administrative Regions or Taiwan), except as permitted by the applicable laws of the PRC.

Hong Kong

Each Manager has represented, warranted and agreed that:

(i) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Bonds other than (a) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong ("**SFO**") and any rules made under the SFO; or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) 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, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Bonds, 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 Bonds 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 Manager has acknowledged that this Offering Circular has not been and will not be registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Manager has represented, warranted and agreed that it has not offered or sold any Bonds or caused the Bonds to be made the subject of an invitation for subscription or purchase and will not offer or sell any Bonds or cause the Bonds 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 Bonds, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time (the "**SFA**")) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Bonds are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Bonds 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.

United Kingdom

Each Manager has represented, warranted and agreed that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Bonds in circumstances in which Section 21(1) of the FSMA does not apply to the Bank; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Bonds in, from or otherwise involving the United Kingdom.

Prohibition of sales to EEA and UK retail investors

Each Manager has represented, warranted and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Bonds which are the subject of the offering contemplated by this Offering Circular 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 MiFID II; or

  (ii) a customer within the meaning of the Insurance Distribution Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

Each Manager has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Bonds which are the subject of the offering contemplated by this Offering Circular 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 EUWA; or

  (ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement the Insurance Distribution Directive, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA.

Switzerland

This Offering Circular is not intended to constitute an offer or solicitation to purchase or invest in the Bonds described herein. The Bonds may not be publicly offered, sold or advertised, directly or indirectly, in, into or from Switzerland and will not be listed on the SIX Swiss Exchange or on any other exchange or regulated trading facility in Switzerland. Neither this Offering Circular nor any other offering or marketing material relating to the Bonds constitutes a prospectus as such term is understood pursuant to article 652a or article 1156 of the Swiss Code of Obligations, or a listing prospectus within the meaning of the listing rules of the SIX Swiss Exchange or on any other exchange or regulated trading facility in Switzerland, and neither this Offering Circular nor any other offering or marketing material relating to the Bonds may be publicly distributed or otherwise made publicly available in Switzerland.

Neither this Offering Circular nor any other offering or marketing material relating to the offering, nor the Bank nor the Bonds have been or will be filed with or approved by any Swiss regulatory authority. The Bonds are not subject to the supervision by any Swiss regulatory authority, e.g. the Swiss Financial Markets Supervisory Authority FINMA, and investors in the Bonds will not benefit from protection or supervision by such authority.

Taiwan

Each Manager has represented, warranted and agreed that it has not offered, sold or delivered, and will not offer, sell or deliver, at any time, directly or indirectly, any Bonds acquired by it as part of the offering in Taiwan or to, or for the account or benefit of, any resident of Taiwan except as permitted by the securities laws of Taiwan.

Canada

The Bonds may be sold only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 *Prospectus Exemptions* or subsection 73.3(1) of the *Securities Act* (Ontario), and are permitted clients, as defined in National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations*. Any resale of the Bonds must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this Offering Circular (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal advisor.

GENERAL INFORMATION

1. **Clearing Systems**: The Bonds have been accepted for clearance through Euroclear and Clearstream under Common Code number 243145333 and the International Securities Identification Number for the Bonds is XS2431453336. The Legal Entity Identifier (LEI) Code of the Bank is 5493001KQW6DM7KEDR62.

2. **Authorisations**: The Bank has obtained all necessary consents, approvals and authorisations in connection with the issue and performance of the Bonds. The issue of the Bonds was approved by the Bank's board of directors on 22 September 2020 and by the shareholders of the Bank on 12 November 2020.

   The issue of the Bonds has been approved by PBOC on 23 March 2020 and by the CBIRC on 3 December 2021. In accordance with the 2021 annual foreign debt quota granted by the NDRC and the written confirmation given by the Bank, the Bank is not required to make any pre-issuance registration of the Bonds with the NDRC as the issue size of the Bonds is within such annual foreign debt quota.

   The Bank is required to make post-issue filing with the NDRC, PBOC, the CBIRC and SAFE within the prescribed time period prescribed by the NDRC, PBOC, the CBIRC and SAFE, respectively, following the issuance of the Bonds.

3. **Listing**: Application will be made for the listing of the Bonds on the Hong Kong Stock Exchange by way of debt issues to Professional Investors only and it is expected that the dealing in, and listing of, the Bonds on the Hong Kong Stock Exchange will commence on or about 24 January 2022.

4. **No Material Adverse Change or Significant Change**: Except as disclosed in this Offering Circular, there has been no material adverse change in the prospects of the Bank or the Group since 30 June 2021 and there has been no significant change in the financial or trading position of the Bank or the Group since 30 June 2021.

5. **Litigation**: Except as disclosed in this Offering Circular, none of the Bank or any of its subsidiaries has been involved in any legal or arbitration proceedings (including any proceedings which are pending or threatened of which the Bank is aware) which may have or have had in the 12 months preceding the date of this Offering Circular a significant effect on the financial position of the Bank or the Group.

6. **Available Documents**: Copies of the 2019 Financial Statements, the 2020 Financial Statements and the 2021 First Half Financial Statements, and the articles of association of the Bank, as well as the Deed of Covenant and the Agency Agreement, will be available for inspection from the Issue Date at the specified office of the Fiscal Agent for the time being at 20/F, CCB Tower, 3 Connaught Road Central, Central, Hong Kong, during normal business hours, so long as any of the Bonds is outstanding.

7. **Independent Auditors and Financial Statements**: The independent auditor of the Bank for the year ended 31 December 2018 was PricewaterhouseCoopers, and the independent auditor of the Bank from 1 January 2019 is Ernst & Young, appointed in accordance with the requirement of the MOF with respect to the maximum number of years of service of an auditor for a financial enterprise. Each of PricewaterhouseCoopers and Ernst & Young is a Certified Public Accountant under The Hong Kong Institute of Certified Public Accountants. The audited consolidated financial statements of the Bank as at and for the years ended 31 December 2019 and 2020, which are included elsewhere in this Offering Circular, have been audited by Ernst & Young, independent auditor.

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(1) The independent auditor's reports on the Group's consolidated financial statements as at and for the years ended 31 December 2019 and 2020 are extracted from the Group's annual reports for the years ended 31 December 2019 and 2020, respectively reproduced in this Offering Circular. Page references referred to in the abovenamed reports refer to pages set out in such annual reports.

(2) The report on review of interim financial statements for the six months ended 30 June 2021 set out herein is reproduced from the Group's unaudited but reviewed consolidated interim financial statements as at and for the six months ended 30 June 2021. Page references referred to in the abovenamed report refer to pages set out in such interim financial statements.

INDEPENDENT AUDITOR'S REPORT

安永

22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

To the Shareholders of China Construction Bank Corporation
(Established in the People's Republic of China with limited liability)

OPINION

We have audited the consolidated financial statements of China Construction Bank Corporation (the "Bank") and its subsidiaries (the "Group") set out on pages 150 to 282, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and relevant notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Expected credit losses for loans and advances to customers at amortised cost	
The Group determines and measures expected credit losses for loans and advances to customers measured at amortised cost, in accordance with IFRS 9 – Financial Instruments. The Group uses a number of models and assumptions in the measurement of expected credit losses, for example: • Significant increase in credit risk – Criteria for determining whether significant increase in credit risk has occurred are highly judgemental, and may have a significant impact on expected credit losses for loans and advances to customers at amortised cost with longer outstanding maturities; • Models and parameters – Complex models, numerous inputs and parameters are used to measure expected credit losses, involving many management judgements and assumptions; • Forward-looking information – Macroeconomic forecasts are developed, and impact on expected credit losses are considered for probability weighted multiple economic scenarios; • Individual impairment assessment – Identifying loans and advances to customers at amortised cost that have been impaired requires consideration of a range of factors, and individual impairment assessments are dependent upon estimates of future cash flows.	We evaluated and tested the design and operating effectiveness of key controls over credit granting, post approval credit management, loan credit rating system, collateral management and loan impairment assessment, including relevant data quality and information systems. We adopted a risk-based sampling approach in our loan review procedures. We assessed the debtors' repayment capacity and evaluated the Group's loan grading, taking into consideration post-lending inspection reports, debtors' financial information, collateral valuation reports and other available information. With the support of our internal credit risk modelling experts, we evaluated and tested the expected credit loss model, key parameters, and management's significant judgements and assumptions, mainly focusing on the following aspects: (1) Expected credit loss model: • Assessed the reasonableness of the expected credit loss model methodology and related parameters, including probability of default, loss given default, risk exposure, and significant increase in credit risk; • Assessed the forward-looking information used by management to determine expected credit losses, including the forecasts of macroeconomic variables and the assumptions of multiple macroeconomic scenarios; • Evaluated the models and related assumptions used in individual impairment assessment, and analysed the amount, timing and probability of management's estimated future cash flows, especially the recoverable cash flows from collateral.

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Expected credit losses for loans and advances to customers at amortised cost (Continued)	
Due to the fact that impairment assessment for loans and advances to customers at amortised cost involves significant judgements and assumptions, and in view of the materiality of the balances (as at 31 December 2019, gross loans and advances to customers at amortised cost amounted to RMB14,479,931 million, representing 56.93% of total assets, and impairment allowance for loans and advances to customers at amortised cost amounted to RMB482,158 million), we consider impairment of loans and advances to customers at amortised cost a key audit matter. *Relevant disclosures are included in Note 4(3), Note 4(26)b, Note 25 and Note 61(1) to the financial statements.*	(2) Design and operating effectiveness of key controls: • Evaluated and tested the data and processes used to determine expected credit loss, including loan business data, internal credit rating data, macroeconomic data, as well as the computational logic, inputs and system interfaces of the impairment assessment system; • Evaluated and tested key controls over the expected credit loss model, including approval of model changes, ongoing monitoring of model performance, model validation and parameter calibration. We evaluated and tested the design and operating effectiveness of internal controls over the disclosures of credit risk exposures and expected credit losses.
Consolidation assessment of, and disclosure about, structured entities	
The Group holds interests in many different structured entities as a result of its business activities in financial investment, asset management, and credit asset transfer. Such interests in structured entities include wealth management products, funds, asset management plans, trust plans, and asset-backed securities. The Group needs to comprehensively consider the power it possesses, its exposure to variable returns, and its ability to use its power to affect returns to determine whether it has control over such structured entities, and therefore whether it should include them in the scope of consolidation. The assessment of the Group's control over structured entities involves significant judgement on factors such as the purpose and design of structured entities, the Group's ability to direct relevant activities, direct and indirect beneficial interests and returns, performance fee, and benefits received or losses incurred from providing credit enhancement or liquidity support. Comprehensive analysis of these factors and concluding on whether the Group has control involve significant management judgements and estimates. In view of the materiality and the complexity of management judgements, we consider consolidation assessment of, and disclosure about, the structured entities a key audit matter. *Relevant disclosures are included in Note 4(1), Note 4(26)f, Note 26(1)a and Note 28 to the financial statements.*	We evaluated and tested the design and operating effectiveness of key controls over the Group's assessment of whether it controls a structured entity. We assessed the Group's analysis and conclusions on whether it controls structured entities based on the Group's analysis on its power over these structured entities, and the magnitude and variability of the variable returns from its involvement with structured entities. We assessed whether the Group has legal or constructive obligations to ultimately absorb losses from the structured entities through contract inspection, which included examining, on a sampling basis, whether the Group has provided liquidity support or credit enhancement to structured entities. Furthermore, we evaluated and tested the design and operating effectiveness of internal controls over the disclosures of unconsolidated structured entities.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Bank are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Bank are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Bank are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Bank either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Bank are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- 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.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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 *Choi Kam Cheong, Geoffrey*.

Ernst & Young

Certified Public Accountants

Hong Kong

27 March 2020

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019 (EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

	Note	2019	2018
Interest income		**883,499**	811,026
Interest expense		**(372,819)**	(324,748)
Net interest income	6	**510,680**	486,278
Fee and commission income		**155,262**	138,017
Fee and commission expense		**(17,978)**	(14,982)
Net fee and commission income	7	**137,284**	123,035
Net trading gain	8	**9,120**	12,614
Dividend income	9	**1,184**	773
Net gain arising from investment securities	10	**9,093**	3,444
Net gain/(loss) on derecognition of financial assets measured at amortised cost	11	**3,359**	(2,241)
Other operating income, net:			
– Other operating income		**36,127**	35,918
– Other operating expense		**(28,846)**	(26,049)
Other operating income, net	12	**7,281**	9,869
Operating income		**678,001**	633,772
Operating expenses	13	**(188,132)**	(174,764)
		489,869	459,008
Credit impairment losses	14	**(163,000)**	(151,109)
Other impairment losses	15	**(521)**	121
Share of profits of associates and joint ventures		**249**	140
Profit before tax		**326,597**	308,160
Income tax expense	18	**(57,375)**	(52,534)
Net profit		**269,222**	255,626

The notes on pages 157 to 282 form part of these financial statements.

FOR THE YEAR ENDED 31 DECEMBER 2019 (EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

	Note	2019	2018
Other comprehensive income:			
(1) Other comprehensive income that will not be reclassified to profit or loss			
Remeasurements of post-employment benefit obligations		199	(296)
Fair value changes of equity instruments designated as measured at fair value through other comprehensive income		444	120
Others		59	43
Subtotal		702	(133)
(2) Other comprehensive income that may be reclassified subsequently to profit or loss			
Fair value changes of debt instruments measured at fair value through other comprehensive income		9,005	35,887
Allowances for credit losses of debt instruments measured at fair value through other comprehensive income		1,624	303
Reclassification adjustments included in profit or loss due to disposals		(175)	(149)
Net loss on cash flow hedges		(292)	(267)
Exchange difference on translating foreign operations		2,682	2,573
Subtotal		12,844	38,347
Other comprehensive income for the year, net of tax		13,546	38,214
Total comprehensive income for the year		282,768	293,840
Net profit attributable to:			
Equity shareholders of the Bank		266,733	254,655
Non-controlling interests		2,489	971
		269,222	255,626
Total comprehensive income attributable to:			
Equity shareholders of the Bank		280,268	292,705
Non-controlling interests		2,500	1,135
		282,768	293,840
Basic and diluted earnings per share (in RMB Yuan)	19	1.05	1.00

The notes on pages 157 to 282 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019 (EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

	Note	**31 December 2019**	31 December 2018
Assets:			
Cash and deposits with central banks	20	**2,621,010**	2,632,863
Deposits with banks and non-bank financial institutions	21	**419,661**	486,949
Precious metals		**46,169**	33,928
Placements with banks and non-bank financial institutions	22	**531,146**	349,727
Positive fair value of derivatives	23	**34,641**	50,601
Financial assets held under resale agreements	24	**557,809**	201,845
Loans and advances to customers	25	**14,540,667**	13,365,430
Financial investments	26		
Financial assets measured at fair value through profit or loss		**675,361**	731,217
Financial assets measured at amortised cost		**3,740,296**	3,272,514
Financial assets measured at fair value through other comprehensive income		**1,797,584**	1,711,178
Long-term equity investments	27	**11,353**	8,002
Fixed assets	29	**170,740**	169,574
Land use rights	30	**14,738**	14,373
Intangible assets	31	**4,502**	3,622
Goodwill	32	**2,809**	2,766
Deferred tax assets	33	**72,314**	58,730
Other assets	34	**195,461**	129,374
Total assets		**25,436,261**	23,222,693
Liabilities:			
Borrowings from central banks	36	**549,433**	554,392
Deposits from banks and non-bank financial institutions	37	**1,672,698**	1,427,476
Placements from banks and non-bank financial institutions	38	**521,553**	420,221
Financial liabilities measured at fair value through profit or loss	39	**281,597**	431,334
Negative fair value of derivatives	23	**33,782**	48,525
Financial assets sold under repurchase agreements	40	**114,658**	30,765
Deposits from customers	41	**18,366,293**	17,108,678
Accrued staff costs	42	**39,075**	36,213
Taxes payable	43	**86,635**	77,883
Provisions	44	**42,943**	37,928
Debt securities issued	45	**1,076,575**	775,785
Deferred tax liabilities	33	**457**	485
Other liabilities	46	**415,435**	281,414
Total liabilities		**23,201,134**	21,231,099

The notes on pages 157 to 282 form part of these financial statements.

AS AT 31 DECEMBER 2019 (EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

	Note	**31 December 2019**	31 December 2018
Equity:			
Share capital	47	**250,011**	250,011
Other equity instruments	48		
Preference shares		**79,636**	79,636
Perpetual bonds		**39,991**	–
Capital reserve	49	**134,537**	134,537
Other comprehensive income	50	**31,986**	18,451
Surplus reserve	51	**249,178**	223,231
General reserve	52	**314,389**	279,725
Retained earnings	53	**1,116,529**	990,872
Total equity attributable to equity shareholders of the Bank		**2,216,257**	1,976,463
Non-controlling interests		**18,870**	15,131
Total equity		**2,235,127**	1,991,594
Total liabilities and equity		**25,436,261**	23,222,693

Approved and authorised for issue by the Board of Directors on 27 March 2020.

Liu Guiping	**Kenneth Patrick Chung**	**Carl Walter**
Vice Chairman, executive director and president	*Independent non-executive director*	*Independent non-executive director*

The notes on pages 157 to 282 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019 (EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

	Attributable to equity shareholders of the Bank									
		Other equity instruments								
	Share capital	Preference shares	Perpetual bonds	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Non-controlling interests	Total equity
As at 1 January 2019	250,011	79,636	–	134,537	18,451	223,231	279,725	990,872	15,131	1,991,594
Movements during the year	–	–	39,991	–	13,535	25,947	34,664	125,657	3,739	243,533
(1) Total comprehensive income for the year	–	–	–	–	13,535	–	–	266,733	2,500	282,768
(2) Changes in share capital										
i Capital injection by other share holders	–	–	–	–	–	–	–	–	1,980	1,980
ii Capital injection by other equity instruments holders	–	–	39,991	–	–	–	–	–	–	39,991
iii Change in shareholdings in subsidiaries	–	–	–	–	–	–	–	–	(196)	(196)
(3) Profit distribution										
i Appropriation to surplus reserve	–	–	–	–	–	25,947	–	(25,947)	–	–
ii Appropriation to general reserve	–	–	–	–	–	–	34,664	(34,664)	–	–
iii Dividends to ordinary shareholders	–	–	–	–	–	–	–	(76,503)	–	(76,503)
iv Dividends to preference shareholders	–	–	–	–	–	–	–	(3,962)	–	(3,962)
v Dividends to non-controlling interests holders	–	–	–	–	–	–	–	–	(545)	(545)
As at 31 December 2019	250,011	79,636	39,991	134,537	31,986	249,178	314,389	1,116,529	18,870	2,235,127

	Attributable to equity shareholders of the Bank								
	Share capital	Other equity instruments-Preference shares	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Non-controlling interests	Total equity
As at 1 January 2018	250,011	79,636	134,537	(19,599)	198,613	259,680	857,569	15,929	1,776,376
Movements during the year	–	–	–	38,050	24,618	20,045	133,303	(798)	215,218
(1) Total comprehensive income for the year	–	–	–	38,050	–	–	254,655	1,135	293,840
(2) Changes in share capital									
i Acquisition of subsidiaries	–	–	–	–	–	–	–	(8)	(8)
ii Change in shareholdings in subsidiaries	–	–	–	–	–	–	–	(138)	(138)
iii Disposal of subsidiaries	–	–	–	–	–	–	–	(1,667)	(1,667)
(3) Profit distribution									
i Appropriation to surplus reserve	–	–	–	–	24,618	–	(24,618)	–	–
ii Appropriation to general reserve	–	–	–	–	–	20,045	(20,045)	–	–
iii Dividends to ordinary shareholders	–	–	–	–	–	–	(72,753)	–	(72,753)
iv Dividends to preference shareholders	–	–	–	–	–	–	(3,936)	–	(3,936)
v Dividends to non-controlling interests holders	–	–	–	–	–	–	–	(120)	(120)
As at 31 December 2018	250,011	79,636	134,537	18,451	223,231	279,725	990,872	15,131	1,991,594

The notes on pages 157 to 282 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019 (EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

	Note	2019	2018
Cash flows from operating activities			
Profit before tax		**326,597**	308,160
Adjustments for:			
– Credit impairment losses	14	**163,000**	151,109
– Other impairment losses	15	**521**	(121)
– Depreciation and amortization	13	**23,927**	17,874
– Interest income from impaired financial assets		**(3,092)**	(3,312)
– Revaluation gain on financial instruments at fair value through profit or loss		**(2,456)**	(144)
– Share of profits of associates and joint ventures		**(249)**	(140)
– Dividend income	9	**(1,184)**	(773)
– Unrealised foreign exchange loss/(gain)		**2,548**	(6,981)
– Interest expense on bonds issued		**16,418**	12,975
– Interest income from investment securities and net income from disposal		**(198,282)**	(175,508)
– Net gain on disposal of fixed assets and other long-term assets		**(42)**	(135)
		327,706	303,004
Changes in operating assets:			
Net decrease in deposits with central banks and with banks and non-bank financial institutions		**183,478**	367,756
Net increase in placements with banks and non-bank financial institutions		**(94,096)**	(50,390)
Net increase in loans and advances to customers		**(1,297,965)**	(852,702)
Net (increase)/decrease in financial assets held under resale agreements		**(355,758)**	6,778
Net increase in financial assets held for trading purposes		**(10,791)**	(35,256)
Net (increase)/decrease in other operating assets		**(75,045)**	47,322
		(1,650,177)	(516,492)
Changes in operating liabilities:			
Net decrease in borrowings from central banks		**(2,132)**	(3,121)
Net increase in placements from banks and non-bank financial institutions		**96,186**	16,211
Net increase in deposits from customers and from banks and non-bank financial institutions		**1,461,277**	602,520
Net increase/(decrease) in financial assets sold under repurchase agreements		**83,663**	(44,616)
Net increase in certificates of deposit issued		**338,170**	40,963
Income tax paid		**(65,793)**	(49,174)
Net (decrease)/increase in financial liabilities measured at fair value through profit or loss		**(149,986)**	11,922
Net increase in other operating liabilities		**142,373**	82,550
		1,903,758	657,255
Net cash from operating activities		**581,287**	443,767

The notes on pages 157 to 282 form part of these financial statements.

FOR THE YEAR ENDED 31 DECEMBER 2019 (EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

	Note	2019	2018
Cash flows from investing activities			
Proceeds from sales of financial investments		1,504,300	1,198,833
Cash received from redemption of financial investments		192,870	176,475
Proceeds from disposal of fixed assets and other long-term assets		2,366	2,612
Purchase of investment securities		(1,963,872)	(1,553,492)
Purchase of fixed assets and other long-term assets		(23,234)	(20,783)
Acquisition of subsidiaries, associates and joint ventures		(4,978)	(1,360)
Net cash used in investing activities		(292,548)	(197,715)
Cash flows from financing activities			
Issue of bonds		42,106	123,524
Cash received from issuance of perpetual bonds		39,991	–
Cash received from subsidiaries' capital injection by non-controlling interests holders		1,980	–
Dividends paid		(81,010)	(76,811)
Repayment of borrowings		(79,052)	(6,319)
Cash paid by subsidiaries for purchase of non-controlling interests holders' equity		(196)	(138)
Interest paid on bonds issued		(18,051)	(11,335)
Cash payment for other financing activities		(7,609)	–
Net cash (used in)/from financing activities		(101,841)	28,921
Effect of exchange rate changes on cash and cash equivalents		4,740	14,390
Net increase in cash and cash equivalents		191,638	289,363
Cash and cash equivalents as at 1 January	54	860,702	571,339
Cash and cash equivalents as at 31 December	54	1,052,340	860,702
Cash flows from operating activities include:			
Interest received		695,047	653,845
Interest paid, excluding interest expense on bonds issued		(337,478)	(308,323)

The notes on pages 157 to 282 form part of these financial statements.

1 COMPANY INFORMATION

The history of China Construction Bank Corporation (the "Bank") dates back to 1954, which was previously known as the People's Construction Bank of China when it was established. It administered and disbursed government funds for construction and infrastructure related projects under the state economic plan. The People's Construction Bank of China gradually became a full service commercial bank following the establishment of China Development Bank in 1994 to assume its policy lending functions. In 1996, the People's Construction Bank of China changed its name to China Construction Bank ("CCB"). On 17 September 2004, China Construction Bank Corporation was formed as a joint-stock commercial bank in the People's Republic of China (the "PRC") as a result of a separation procedure undertaken by its predecessor, China Construction Bank. In October 2005 and September 2007, the Bank's H shares and A shares were listed on the Hong Kong Stock Exchange (Stock Code: 939) and the Shanghai Stock Exchange (Stock Code: 601939), respectively. As at 31 December 2019, the Bank issued the total ordinary share capital of RMB250,011 million, with a par value of RMB1.00 per share.

The Bank obtained its finance permit No.B0004H111000001 from the China Banking Regulatory Commission ("CBRC") (In 2018, it was renamed as China Banking and Insurance Regulatory Commission, hereinafter referred to as the "CBIRC") of the PRC. The Bank obtained its unified social credit code No.911100001000044477 from the Beijing Administration for Industry and Commerce. The registered office of the Bank is located at No.25, Finance Street, Xicheng District, Beijing, the PRC.

The principal activities of the Bank and its subsidiaries (collectively the "Group") are the provision of corporate and personal banking services, conducting treasury business, the provision of asset management, trustee, finance leasing, investment banking, insurance and other financial services. The Group mainly operates in Mainland China and also has a number of overseas branches and subsidiaries. For the purpose of these financial statements, Mainland China refers to the PRC excluding the Hong Kong Special Administrative Region of the PRC ("Hong Kong"), the Macau Special Administrative Region of the PRC ("Macau") and Taiwan. Overseas refers to countries and regions other than Mainland China.

The Bank is under the supervision of the banking regulatory bodies empowered by the State Council of the PRC (the "State Council"). The overseas financial operations of the Bank are under the supervision of their respective local jurisdictions. Central Huijin Investment Ltd. ("Huijin"), a wholly-owned subsidiary of China Investment Corporation ("CIC"), exercises its rights and obligations as an investor on behalf of the PRC government.

These financial statements were authorised for issue by the board of directors of the Bank on 27 March 2020.

2 BASIS OF PREPARATION

The Group uses the calendar year as the accounting year, which is from 1 January to 31 December.

These financial statements comprise the Bank and its subsidiaries and the Group's interests in associates and joint ventures.

(1) Basis of measurement

These financial statements have been prepared on the historical cost basis except that: (i) financial instruments at fair value through profit or loss are measured at fair value; (ii) derivative financial instruments are measured at fair value; (iii) financial assets measured at fair value through other comprehensive income are measured at fair value; and (iv) certain non-financial assets are measured at revalued amount. The measurement basis of major assets and liabilities are further explained in Note 4.

(2) Functional and presentation currency

These financial statements are presented in RMB, unless otherwise stated, rounded to the nearest million, which is the functional currency of the domestic operations of the Group. The functional currencies of overseas branches and subsidiaries are determined in accordance with the primary economic environment in which they operate, and are translated into RMB for the preparation of these financial statements according to Note 4(2)(b).

(3) Use of estimates and judgements

The preparation of financial statements 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 expenses. Actual results may differ from these estimates.

The estimates and associated assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Judgements that have a significant effect on the financial statements and estimates with a significant risk of material adjustments in the subsequent period are discussed in Note 4(26).

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

3 STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB"). These financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance (Cap. 622), and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The Group has adopted the following new or revised IFRSs and Interpretations effective for the current year. There is no early adoption of any new IFRSs and Interpretations not yet effective for the year ended 31 December 2019.

IFRS 16	Leases
Amendments to IFRS 9	Prepayment Features with Negative Compensation
IFRIC Interpretation 23	Uncertainty over Income Tax Treatments
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to IAS 19	Plan amendment, Curtailment or Settlement
Annual Improvements to IFRS Standards 2015 – 2017 Cycle	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23

IFRIC Interpretation 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of IAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances.

Upon adoption of the Interpretation, the Group considered whether it has any uncertain tax positions. The Group determined, based on its tax compliance and transfer pricing study, that it is probable that its tax treatments (including those for the subsidiaries) will be accepted by the taxation authorities. The Interpretation did not have significant impact on the consolidated financial statements of the Group.

Except for IFRS 16, of which the financial impacts are elaborated in note 4(27), the adoption of the above standards, amendments and interpretations does not have a significant impact on the Group's consolidated financial statements.

Except for those described above, the significant accounting policies adopted by the Group for the annual financial statements are consistent with those applied in the preparation of the Group's annual financial statements for the year ended 31 December 2018.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(1) Consolidated financial statements

(a) Business combinations

The consideration transferred by the acquirer for the acquisition and the identifiable assets acquired, liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition by acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill in accordance with the accounting policies set out in Note 4(10). If this is less than the fair value of the identifiable net assets of the acquiree in the case of a bargain purchase, the difference is recognised in profit or loss.

Acquisition date mentioned above is the date that the Group effectively obtains control of the acquiree.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(1) Consolidated financial statements (continued)

(b) Subsidiaries and non-controlling interests

Subsidiaries are all entities (including structured entities) over which the Bank has control. The Bank controls an entity when the Bank has the power over the entity, and is exposed to, or has the rights to the variable returns from its involvement with the entity, and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Bank. They are deconsolidated from the date that control ceases.

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements.

For the separate financial statements of the Bank, investments in subsidiaries are accounted for at cost. At initial recognition, investment in subsidiaries is measured at the cost of acquisition determined at the acquisition date when the subsidiaries are acquired through business combination or the capital injected into the subsidiaries set up by the Group. Impairment losses on investments in subsidiaries are accounted for in accordance with the accounting policies as set out in Note 4(12).

The financial results and performance of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. When preparing the consolidated financial statements, the Bank makes necessary adjustments on the accounting period and accounting policies of subsidiaries to comply with those of the Bank.

Intragroup balances and transactions, and any profits or losses arising from intragroup transactions are eliminated in full in preparing the consolidated financial statements.

The portion of a subsidiary's net assets that is attributable to equity interests that are not owned by the Bank, whether directly or indirectly through subsidiaries, is treated as non-controlling interests and presented as "non-controlling interests" in the consolidated statement of financial position within total equity. The portion of net profit or loss and other comprehensive income of subsidiaries for the year attributable to non-controlling interests is separately presented in the consolidated statement of comprehensive income as a component of the Group's net profit and other comprehensive income.

(c) Associates and joint arrangements

An associate is an enterprise in which the Group has significant influence. 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 policy decisions.

Joint arrangement is an arrangement of which two or more parties have joint control. The classification of a joint arrangement as a joint operation or a joint venture depends upon the rights and obligations of the parties to the arrangement. Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing the control. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures.

Investments in associates or joint ventures are accounted for using the equity method in the consolidated financial statements and are initially recorded at acquisition cost, and adjusted thereafter for the post acquisition change in the Group's share of net assets of the associates or joint ventures. The Group's share of the post-acquisition, post-tax results of the associates or joint ventures for the year is recognised in the consolidated statement of comprehensive income. The Group's interest in associates or joint ventures is included from the date that significant influence or joint control commences until the date that significant influence or joint control ceases.

Profits and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's interest in the associates or joint ventures.

The Group discontinues recognising its share of net losses of the associates or joint ventures after the carrying amount of investments in associates and joint ventures together with any long-term interests that in substance form part of the Group's net investment in the associates or joint ventures are reduced to zero, except to the extent that the Group has incurred legal or constructive obligations to assume additional losses. Where the associates or joint ventures make net profits subsequently, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(2) Translation of foreign currencies

(a) *Translation of foreign currency transactions*

Foreign currency transactions are, on initial recognition, translated into the functional currency at the spot exchange rates at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are translated into the functional currency at the spot exchange rates at that date. The resulting exchange differences are recognised in profit or loss. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated into functional currency using the spot exchange rates at the transaction dates. Non-monetary items denominated in foreign currencies that are measured at fair value are translated using the spot exchange rates at the dates the fair values are determined; exchange differences are recognised in profit or loss, except for the differences arising from the translation of equity instruments designated at fair value through other comprehensive income, which are recognised in other comprehensive income.

(b) *Translation of financial statements denominated in foreign currencies*

Foreign currency financial statements of overseas branches and subsidiaries are translated into RMB for the preparation of consolidated financial statements. At the end of each reporting period, the assets and liabilities in the financial statements denominated in foreign currencies are translated into RMB at the spot exchange rates ruling at that date. All items within equity except for retained earnings are translated at the exchange rates ruling at the dates of the initial transactions. Income and expenses in the statement of comprehensive income are translated at the weighted average exchange rates for the year. Foreign exchange differences arising from foreign operations are recognised in "other comprehensive income" in the shareholders' equity in the statement of financial position. The effect of exchange rate changes on cash is presented separately in the statement of cash flows.

(3) Financial instruments

(a) *Classification*

The Group classifies financial instruments into different categories based on the business model used to manage financial assets and contractual cash flow characteristics or the purposes for which the liabilities were incurred. The categories are: financial assets measured at amortised cost, financial assets measured at fair value through other comprehensive income ("FVOCI"), financial assets and liabilities measured at fair value through profit or loss ("FVPL"), and other financial liabilities.

The business model of the Group's management of financial assets refers to how the Group manages financial assets to generate cash flows. The business model determines whether the cash flow of financial assets managed by the Group is derived from contractual cash flows, sales of financial assets or both. Factors considered by the Group in determining the business model for a group of financial 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.

The characteristics of the contractual cash flow of financial assets refer to the cash flow attributes agreed in the contract of financial instruments that reflect the economic characteristics of the relevant financial assets, that is, the contractual cash flows generated by the relevant financial assets on a specific date are only for payment of the principal and the interest based on the amount of principal outstanding. Of which, principal refers to the fair value of financial assets at initial recognition. The payment of the underlying interest, where the principal is the fair value of the financial asset at the time of initial recognition, and its amount may change during the lifetime of the financial asset due to prepayment and other reasons; interest includes the time value of money, the credit risk associated with the outstanding principal amount for a specific period, and the consideration of other basic borrowing risks, costs and profits.

Financial assets measured at amortised cost

Financial assets are classified as financial assets measured at amortised cost if both of the following conditions are met: (i) the assets are managed within a business model whose objective is to hold assets in order to collect contractual cash flows; (ii) the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(3) Financial instruments (continued)

(a) Classification (continued)

Financial assets measured at fair value through other comprehensive income (FVOCI)

Financial assets measured at FVOCI include debt instruments measured at FVOCI and equity instrument designated as measured at FVOCI.

Financial assets are classified as financial assets measured at FVOCI if both of the following conditions are met: (i) the assets are managed within a business model whose objective is achieved by collecting contractual cash flows and selling financial assets; (ii) the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

At inception, the Group may designate non-trading equity instruments as financial assets measured at FVOCI, and recognise dividend income in accordance with the relevant policies specified in Note 4(20)(c). Once the designation is made, it cannot be revoked.

Financial assets and liabilities measured at fair value through profit or loss (FVPL)

The Group classifies the financial assets other than financial assets measured at amortised cost and FVOCI as financial assets measured at FVPL.

Financial assets measured at FVPL include those held for trading purposes, those designated as measured at FVPL, those could not pass the solely payment of principal and interests ("SPPI") testing and the remaining equity investments which are not designated as measured at FVOCI.

Financial liabilities measured at FVPL include negative fair value of derivatives, and those designated as measured at FVPL.

Financial assets or financial liabilities are classified as held for trading if they are: (i) acquired or incurred principally for the purpose of selling or repurchasing it in the near term; (ii) part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or (iii) a derivative (except for a derivative that is a designated and effective hedging instruments or a financial guarantee contract).

At initial inception, the Group may designate financial assets as financial assets measured at FVPL if the designation can eliminate or significantly reduce accounting mismatch. Once the designation is made, it cannot be revoked.

Financial liabilities are designated as measured at FVPL upon initial recognition when: (i) the designation can eliminate or significantly reduce accounting mismatch; or (ii) the formal written file of the Group's risk management or investment strategy have clearly stated that the financial liability portfolio, or the portfolio of financial assets and financial liabilities, are managed, evaluated and reported to key management personnel on the basis of fair value. Once the designation is made, it cannot be revoked.

Other financial liabilities

Other financial liabilities are financial liabilities other than those measured at FVPL and mainly comprise borrowings from central banks, deposits and placements from banks and non-bank financial institutions, financial assets sold under repurchase agreements, deposits from customers and debt securities issued.

(b) Derivatives and hedge accounting

The Group uses derivatives to hedge its exposure to foreign exchange and interest rate risks. Derivatives are recognised at fair value at the trade date upon initial recognition, and subsequently measured at fair value. The positive fair value is recognised as an asset while the negative fair value is recognised as a liability.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated and qualified as a hedging instrument, and if so, the nature of the item being hedged. For derivatives not designated or qualified as hedging instruments, including those that are intended to provide effective economic hedges of specific interest rate and foreign exchange risks, but not qualified for hedge accounting, changes in the fair value of these derivatives are recognised in the consolidated statement of comprehensive income.

The Group documents, at inception, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment 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. The Group assess the hedge effectiveness both at hedge inception and on an ongoing basis.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(3) Financial instruments (continued)

(b) Derivatives and hedge accounting (continued)

(i) Fair value hedge

Fair value hedge is a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or 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.

(ii) 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 "other comprehensive income". The ineffective portion is recognised immediately in the profit or loss.

Amounts accumulated in other comprehensive income 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 other comprehensive income at that time remains in other comprehensive income 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 other comprehensive income is immediately transferred to the profit or loss.

(c) Embedded derivatives

An embedded derivative is a component of a hybrid contract that also includes a non-derivative host. If a hybrid contract contains a host that is an financial asset, the embedded derivative shall not be separated from the host and shall be classified and measured as a whole.

If a hybrid contract contains a host that is not an financial asset, an embedded derivative shall be separated from the host and accounted for as a derivative if, and only if: (i) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host; (ii) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and (iii) the hybrid contract is not measured at fair value with changes in fair value recognised in profit or loss.The Group could choose to measure the separated derivative at FVPL, or designate the entire hybrid contract as at FVPL.

(d) Recognition and derecognition

All financial assets and financial liabilities are recognised in the statement of financial position, when and only when, the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset if the part being considered for derecognition meets one of the following conditions: (i) the contractual rights to receive the cash flows from the financial asset expire; (ii) the contractual rights to receive the cash flows of the financial asset have been transferred and the Group transfers substantially all the risks and rewards of ownership of the financial asset; or the Group has neither transferred nor retained substantially all the risks and rewards of ownership of the transferred credit asset, but has given up control of the credit asset;or (iii) the Group retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to the eventual recipient in an agreement that meets all the conditions of transfer of cash flows and transfers substantially all the risks and rewards of ownership of the financial asset or the Group has neither transferred nor retained substantially all the risks and rewards of ownership of the transferred credit assets, but has given up control of the credit asset.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(3) Financial instruments (continued)

(d) Recognition and derecognition (continued)

When a financial asset is derecognized, the difference between the carrying amount of the financial asset derecognised and the consideration received, as well as the cumulative changes in fair value previously recognised in equity, is recognised in other comprehensive income.

When a financial asset is transferred, and if the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, but retains control, the Group continues to recognise the financial asset to the extent of its continuing involvement in the financial asset.

The financial liability is derecognised only when: (i) the underlying present obligation specified in the contracts is discharged, cancelled or expired, or (ii) an agreement between the Group and an existing lender to replace the original financial liability with a new financial liability with substantially different terms, or a substantial modification of the terms of an existing financial liability is accounted for as an extinguishment of the original financial liability and recognition of a new financial liability.

The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

(e) Measurement

Financial instruments are measured initially at fair value plus, in the case of a financial instrument not measured at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the instrument. Transaction costs for financial instruments measured at fair value through profit or loss are expensed immediately.

Subsequent to initial recognition, the Group measures different categories of financial assets at amortised cost, fair value through other comprehensive income or fair value through profit or loss respectively. Financial liabilities other than those measured at fair value through profit or loss are measured at amortised cost using the effective interest method.

Financial assets measured at fair value through profit or loss

Gains and losses from changes in the fair value of financial assets measured at fair value through profit or loss are recognised in profit or loss.

Financial liabilities measured at fair value through profit or loss

Financial liabilities measured at FVPL are measured at fair value, where the gain or loss arose are recognised in profit or loss. For the financial liabilities designated as measured at FVPL, they are accounted for in accordance with the following requirements: (i) the amount of changes in the fair value of the financial liability arising from changes in the Group's own credit risk should be included in other comprehensive income; (ii) other changes in fair value of the financial liabilities are recognised in current profit or loss. If the treatment of the impact of changes in the financial liabilities' own credit risk will create or enlarge the accounting mismatch in profit or loss in accordance with (i), the Group shall recognise the entire gain or loss of the financial liabilities (including the amount of the impact of changes in its own credit risk) in profit or loss. When the financial liabilities designated as at fair value through profit or loss is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from other comprehensive income to retained earnings.

Financial assets measured at FVOCI

The impairment losses, foreign exchange gains and losses and interest income calculated using effective interest method of financial assets measured at FVOCI are recognised in profit or loss. Besides, other changes of carrying amount are recognised in other comprehensive income.

When the debt instruments measured at FVOCI are sold, gains or losses on disposal are recognised in profit or loss. Gains or losses on disposal include those previously recognised in other comprehensive income being transferred to the profit or loss. For equity instrument investments designated as measured at FVOCI, once the designation is made, fair value gains and losses are recognised in other comprehensive income and are not subsequently reclassified to profit or loss (the changes in fair value are recognised in retained earnings on disposal). Dividends, when representing a return on such investments, continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(3) Financial instruments (continued)

(e) Measurement (continued)

Financial assets measured at amortised cost

The amortised cost of a financial asset should be measured with the initial recognition after the following adjustments: (i) deducting the repaid principal; (ii) adding or subtracting the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount; (iii) the loss provision for the accumulated accrual.

For financial assets measured at amortised cost, a gain or loss is recognised in profit or loss when the financial asset is derecognised or impaired, and through the amortization process.

Effective interest rate

The effective interest rate is the rate that exactly discount estimated future cash payments or receipts through the expected lifetime of the financial asset to the carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance). The calculation does not consider expected credit losses but includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate.

The Group determines interest income based on the gross carrying amount of financial assets multiplied by the effective interest rate, except (i) for purchased or sourced financial assets that have suffered credit impairment, from the initial recognition, interest income is calculated using the financial assets' amortised cost and credit-adjusted effective interest rate; (ii) for a purchased or sourced financial asset that has not suffered credit impairment but has become credit impaired in subsequent periods, interest income is determined using the financial asset's amortised cost and the effective interest rate. If the financial instrument no longer has credit impairment due to the improvement of its credit risk in the subsequent period, and this improvement can be objectively related to an event that occurs after the application of the above provisions, interest income should be recalculated using the effective interest rate multiplied by the gross carrying amount of the financial assets.

Credit-adjusted effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial asset to the amortised cost of a financial asset that is a purchased or originated credit-impaired financial asset. When calculating the credit-adjusted effective interest rate, an entity shall estimate the expected cash flows by considering all contractual terms of the financial asset (for example, prepayment, extension, call and similar options) and initial expected credit losses.

(f) Impairment

At the end of the reporting period, the Group performs impairment assessment based on expected credit loss on financial assets measured at amortised cost and FVOCI, as well as loan commitments and financial guarantee contracts.

The expected credit loss refers to the weighted average of the credit losses of financial instruments that are weighted by the risk of default. Credit loss refers to the difference between all contractual cash flows receivable from the contract and all cash flows expected to be received discounted at the original real interest rate by the Group, that is, the present value of all cash shortages. Among them, financial assets that have been purchased or sourced by the Group and have suffered credit impairment shall be discounted according to the effective interest rate of the financial assets after credit adjustments.

The Group's method of measuring expected credit losses of financial instruments reflects the following elements: (i) unbiased weighted average probability determined by the results of evaluating a range of possible outcomes; (ii) time value of money; (iii) reasonable and evidence-based information about past events, current conditions, and future economic forecasts that are available at no additional cost or effort at the end of the reporting period.

At the end of each reporting period, the Group measures the expected credit losses ("ECL") of financial instruments at different stages and recognises its loss provision and its changes in the following cases: the financial instrument is in Stage 1 if the credit risk of the financial instrument has not increased significantly since the initial recognition and the Group measures its loss provision based on the amount of expected credit loss of the financial instrument in the next 12 months; the financial instrument is in Stage 2 if the credit risk of the financial instrument has increased significantly since the initial recognition and the Group measures its loss provision based on the amount of lifetime expected credit loss of the financial instrument; the financial instrument is in Stage 3 if the financial instrument has credit impaired and the Group measures its loss provision based on the amount of lifetime expected credit loss of the financial instrument. Regardless of whether the Group's assessment of credit losses is based on a single financial instrument or a combination of financial instruments, the increase or reversal of the loss provision resulting therefrom should be included in the current profit or loss as an impairment loss or gain.

For debt instruments measured at FVOCI, the Group recognises the allowance of impairment in other comprehensive income and impairment losses or gains in profit and loss, which should not change the book value of the financial assets set out in the statement of financial position.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(3) Financial instruments (continued)

(f) Impairment (continued)

For loss provision measured at the amount equivalent to the lifetime expected credit loss of the financial instrument previously, if, at the end of the current reporting period, the financial instrument is no longer having significant increase in credit risk since the initial recognition, the Group measures its loss provision based on the amount of its expected credit losses for the next 12 months, and the reversal of the loss provision arising from it is recognised in profit or loss for the current reporting period.

For financial assets that have been purchased or sourced for credit impairment, the Group only recognises cumulative changes in lifetime expected credit losses after initial recognition at the end of the reporting period as loss provision. At the end of each reporting period, the Group recognises the amount of the change in lifetime expected credit losses as an impairment loss or gain in current profit or loss.

(g) Write off

When the Group determines that a loan has no reasonable prospect of recovery after the Group has completed all the necessary legal or other proceedings, the loan is written off against its allowance for impairment losses. If in a subsequent period the loan written off is recovered, the amount recovered will be recognised in profit or loss through impairment losses.

(h) Modification of contracts

If the renegotiation or modification of a contract between the Group and a counterparty does not result in derecognition of the financial assets, but lead to changes in contractual cash flows, the Group assesses whether a significant increase in credit risk has occurred, based on comparing the risk of a default occurring under the revised terms as at the end of the reporting period with that as at the date of initial recognition under original terms. The gross carrying amount of the financial asset is recalculated and the related gain or loss is recognised in profit and loss. The gross carrying amount of the financial asset is determined based on the present value of the renegotiated or modified contractual cash flows discounted at the financial asset's original effective interest rate.

(i) Fair value measurement

If there is an active market for financial instruments, the fair value of financial instruments is based on the prices within the bid-ask spread that is most representative of fair value in the circumstances, and without any deduction for transaction costs that may occur on sales or disposals. A quoted price is from an active market where price information is readily and regularly available from an exchange, dealer, industry group or pricing service agency and that price information represents actual and regularly occurring orderly transactions.

If a quoted market price is not available, the fair value of the financial instruments is estimated using valuation techniques. Valuation techniques applied include the price used by market participants in an orderly transaction, reference to the fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. The Group selects valuation techniques that are commonly accepted by market participants for pricing the instruments and these techniques have been demonstrated to provide reliable estimates of prices obtained in actual market transactions. Periodically, the Group reviews the valuation techniques and tests them for validity.

(j) Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position when the Group has a legally enforceable right to offset the recognised amounts and the transactions are intended to be settled on a net basis, or by realising the asset and settling the liability simultaneously. 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 company or the counterparty.

(k) Securitisations

The Group securitises certain loans, which generally involves the sale of these assets to structured entities, which in turn issue securities to investors. Interests in the securitised financial assets may be retained in the form of credit enhancement or subordinated tranches, or other residual interests ("retained interests"). Gains or losses on securitisation are the difference between the carrying amount of the transferred financial assets and the consideration received (including retained interest) which is recognised in profit or loss.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(3) Financial instruments (continued)

(l) Financial assets held under resale agreements and financial assets sold under repurchase agreements

Financial assets held under resale agreements are transactions where the Group acquires financial assets which will be resold at a predetermined price at a future date under resale agreements. Financial assets sold under repurchase agreements are transactions where the Group sells financial assets which will be repurchased at a predetermined price at a future date under repurchase agreements.

The cash advanced or received is recognised as amounts held under resale or sold under repurchase agreements in the statement of financial position. Assets held under resale agreements are not recognised. Assets sold under repurchase agreements continue to be recognised in the statement of financial position.

The difference between the purchase and resale consideration, and that between the sale and repurchase consideration, is amortised over the period of the respective transaction using the effective interest method and is included in interest income and interest expenses respectively.

(4) Precious metals

Precious metals comprise gold and other precious metals. Precious metals that are acquired by the Group principally for trading purpose are initially recognised at fair value and re-measured at fair value less cost to sell. The changes in fair value less cost to sell are recognised in profit or loss. Precious metals that are not acquired by the Group principally for trading purpose are carried at lower of cost and net realisable value.

(5) Fixed assets

Fixed assets are assets held by the Group for the conduct of business and are expected to be used for more than one year. Construction in progress is the property and equipment under construction, which is transferred to fixed assets when ready for its intended use.

(a) Cost

Fixed assets are initially recognised at cost, except for the fixed assets and construction in progress obtained from CCB by the Bank which were recognised at the revalued amount as cost on the date of restructuring. The cost of a purchased fixed asset comprises the purchase price, related taxes, and any directly attributable expenditure for bringing the asset to working condition for its intended use. The cost of a self-constructed fixed asset comprises those expenditures necessarily incurred for bringing the asset to working condition for its intended use.

Where the individual components of an item of fixed asset have different useful lives or provide benefits to the Group in different patterns thus necessitating use of different depreciation rates or methods, they are recognised as separate fixed assets.

Subsequent costs, including the cost of replacing part of an item of fixed assets, are recognised in the carrying amount of the item if the recognition criteria are satisfied, and the carrying amount of the replaced part is derecognised. Expenditures relating to ordinary maintenance of fixed assets are recognised in profit or loss.

(b) Depreciation and impairment

Depreciation is calculated to write off to the profit or loss the cost of items of fixed assets, less their estimated residual value, if any, using the straight line method over their estimated useful lives. Impaired fixed assets are depreciated net of accumulated impairment losses. No depreciation is provided on construction in progress.

The estimated useful lives, residual value rates and annual depreciation rates of respective fixed assets are as follows:

Types of assets	Estimated useful lives	Estimated net residual value rates	Annual depreciation rates
Bank premises	30-35 years	3%	2.8%-3.2%
Equipment	3-8 years	3%	12.1%-32.3%
Others	4-11 years	3%	8.8%-24.3%

Aircraft and vessels are used for the Group's operating lease business, depreciated using straight-line method over the expected useful life of 20 to 30 years (less the years in service at the time of purchase) with the estimated residual value rate varying from 2.9% to 4.8%.

The Group reviews the estimated useful life and estimated residual value rates of a fixed asset and the depreciation method applied at least once a financial year.

Impairment losses on fixed assets are accounted for in accordance with the accounting policies as set out in Note 4(12).

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(5) Fixed assets (continued)

(c) Disposal

Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the net disposal proceeds and the carrying amount of the fixed asset and are recognised in profit or loss on the date of retirement or disposal.

(6) Lease

Identification of leases

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset for a period of time, the Group assesses whether, throughout the period of use, the customer has both of the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset.

Assessment of the lease term

The lease term is the non-cancellable period of a lease for which the Group has the right to use an underlying asset. If the Group has an option to extend the lease, that is, the Group has the right to extend the lease, and is reasonably certain to exercise that option, the lease term also includes periods covered by an option to extend the lease. If the Group has an option to terminate the lease, that is, the Group has the right to terminate the lease, but is reasonably certain not to exercise that option, the lease term includes periods covered by an option to terminate the lease. The Group reassesses whether it is reasonably certain to exercise an extension option, purchase option, or not to exercise a termination option, upon the occurrence of either a significant event or a significant change in the circumstances that is within the control of the Group and affects whether the Group is reasonably certain to exercise an option not previously included in its determination of the lease term.

As lessee

For the accounting treatment of the Group as a lessee, see Note 4(7) and(14).

Lease modifications

Lease modification is a change in the scope of a lease, or the consideration for a lease, that was not part of the original terms and conditions of the lease, for example, adding or terminating the right to use one or more underlying assets, or extending or shortening the contractual lease term.

The Group accounts for a lease modification as a separate lease if both:

(a) the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

(b) the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, at the effective date of the lease modification the Group remeasures the lease liability by discounting the revised lease payments using a revised discount rate. The revised discount rate is determined as the interest rate implicit in the lease for the remainder of the lease term, or the lessee's incremental borrowing rate at the effective date of the modification, if the interest rate implicit in the lease cannot be readily determined.

For a lease modification that is not accounted for as a separate lease, the Group accounts for the remeasurement of the lease liability by:

(a) decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease for lease modifications that decrease the scope or term of the lease, and recognising the gain or loss relating to the partial or full termination of the lease in profit or loss; or

(b) making a corresponding adjustment to the right-of-use asset for all other lease modifications.

Lessee's incremental borrowing rate

If the interest rate implicit in the lease cannot be readily determined, the Group measures the lease liability at the present value of the lease payments discounted using the lessee's incremental borrowing rate. According to the economic environment, the Group takes the observable interest rate as the reference basis for determining the incremental borrowing rate, then adjusts the observable interest rate based on its own circumstances, underlying assets, lease terms and amounts of lease liabilities to determine the applicable incremental borrowing rate.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(6) Lease (continued)

As lessee (continued)

Short-term leases and leases of low-value assets

If the Group subleases an asset, or expects to sublease an asset, the head lease does not qualify as a lease of a low-value asset. The Group recognises lease payments on short-term leases and leases of low-value assets in the costs of the related asset or profit or loss on a straight-line basis over the lease term.

As lessor

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset, except that a lease is classified as an operating lease at the inception date. The Group, as an intermediate lessor, classifies the sublease by reference to the right-of-use asset arising from the head lease.

As lessor of a finance lease

At the commencement date of the lease, the Group recognises finance lease receivable and derecognises finance lease assets. The Group presents lease receivable at an amount equal to the net investment in the lease for the initial measurement. The net investment in the lease is the sum of any unguaranteed residual value accruing to the lessor and at the commencement date of the lease the lease payments receivable by a lessor under a finance lease discounted at the interest rate implicit in the lease.

The Group recognises finance income over the lease term, based on a pattern reflecting a constant periodic rate of return on the its net investment in the lease. Variable lease payments received by the Group that are not included in the measurement of the net investment in the lease are recognised in profit or loss as incurred.

The Group accounts for a modification to a finance lease as a separate lease if both:

(a) the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

(b) the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a modification to a finance lease that is not accounted for as a separate lease, the Group accounts for the modification as follows:

(a) if the lease would have been classified as an operating lease had the modification been in effect at the inception date, the Group accounts for the lease modification as a new lease from the effective date of the modification, and measures the carrying amount of the underlying asset as the net investment in the lease immediately before the effective date of the lease modification; or

(b) if the lease would have been classified as a finance lease had the modification been in effect at the inception date, the Group accounts for the lease modification in accordance with the requirements in Note 4(3) on the contract modifications or re-negotiation.

As lessor of an operating lease

Rent income under an operating lease is recognised on a straight-line basis over the lease term, through profit or loss. Variable lease payments that are not included in the measurement of lease receivables are charged to profit or loss as incurred. The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

Sale and leaseback transactions

The Group applies the requirements in Note 4(20) to assess and determine whether the transfer of an asset is accounted for as a sale of that asset.

As lessor

If the transfer of an asset satisfies the requirements to be accounted for as a sale of the asset, the Group, as a lessee, measures the right-of-use asset arising from the leaseback at the proportion of the previous carrying amount of the asset that relates to the right of use retained by the Group. Accordingly, the Group recognises only the amount of any gain or loss that relates to the rights transferred to the lessor; and if the transfer of an asset does not satisfy the requirements to be accounted for as a sale of the asset, the Group, as a lessee, continues to recognise the transferred asset and recognises a financial liability equal to the transfer proceeds. The Group accounts for the financial liability applying Note 4(3).

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(7) Right-of-use assets

The right-of-use assets of the Group mainly include right to use buildings and other equipment.

At the commencement date of the lease, the Group recognises a right-of-use asset. The cost of the right-of-use asset comprises: (i) the amount of the initial measurement of the lease liability; (ii) any lease payments made at or before the commencement date of the lease less any lease incentives received; (iii) any initial direct cost incurred; and (iv) an estimate of costs incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease. The right-of-use assets are depreciated on a straight-line basis subsequently by the Group. If the Group is reasonably certain that the ownership of the underlying asset will be transferred to the Group at the end of the lease term, the Group depreciates the asset from the commencement date to the end of the useful life of the asset. Otherwise, the Group depreciates the assets from the commencement date to the earlier of the end of the useful life of the asset or the end of the lease term.

The Group remeasures the lease liability at the present value of the changed lease payments and adjusts the carrying amount of the right-of-use assets accordingly, when the carrying amount of the right-of-use asset is reduced to zero, and there is a further reduction in the measurement of the lease liability, the Group recognises the remaining amount of the remeasurement in profit or loss.

(8) Land use rights

Land use rights are initially recognised at cost. The land use rights obtained from CCB by the Bank on the date of restructuring were recorded at the revalued amount. The cost of the land use rights is amortised on a straight-line basis over their authorised useful lives, and charged to the profit or loss. Impaired land use rights are amortised net of accumulated impairment losses.

Impairment losses on land use rights are accounted for in accordance with the accounting policies as set out in Note 4(12).

(9) Intangible assets

Software and other intangible assets are initially recognised at cost. The cost less estimated residual values, if any, of the intangible assets is amortised on a straight-line basis over their useful lives, and charged to the profit or loss. Impaired intangible assets are amortised net of accumulated impairment losses.

Impairment losses on intangible assets are accounted for in accordance with the accounting policies as set out in Note 4(12).

(10) Goodwill

Goodwill represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets. Goodwill is not amortised. Goodwill arising from a business combination is allocated to each cash-generating unit ("CGU") or group of CGUs, that is expected to benefit from the synergies of the combination. The Group performs an impairment test on goodwill semi-annually.

Any excess of the Group's interest in the net fair value of the acquiree's identifiable net assets over the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree is recognised immediately in profit or loss.

On disposal of the related CGU or group of CGUs, any attributable amount of goodwill net of allowances for impairment losses, if any, is included in the calculation of the profit or loss on disposal.

Impairment loss on goodwill is accounted for in accordance with the accounting policies as set out in Note 4(12).

(11) Repossessed assets

In the recovery of impaired loans and advances, the Group may take possession of assets held as collateral through court proceedings or voluntary delivery of possession by the borrowers. Repossessed assets in the form of financial assets are recognised and presented as the appropriate class of financial assets based on the business models and contractual cash flow characteristics, and repossessed assets that are not financial assets are recognised and reported in "other assets" in the balance sheet when the Group intends to achieve an orderly realisation of the impaired assets and the Group is no longer seeking repayment from the borrower.

When using repossessed assets as compensation for losses on loans and advances to customers and interest receivable, the Group recognizes repossessed assets in the form of financial assets at fair value, and records any taxes payable, advance payment for litigation fees, tax arrears and other transaction costs incurred to obtain repossessed assets in profit or loss or into the initial book value, respectively, depending on the type of financial assets. Repossessed assets that are not financial assets are initially recognized at the fair value of the rights given up by creditors, and the Group records any taxes payable, advance payment for litigation fees, tax arrears and other transaction costs incurred to obtain the repossessed assets into the book value of repossessed assets.

Repossessed assets that are not financial assets are recognized at book value less allowances for impairment losses measured in accordance with the accounting policies as set out in Note 4(12).

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(12) Allowances for impairment losses on assets

The Group determines the impairment of assets, other than the impairment of deferred tax assets and financial assets, using the following methods:

The Group assesses at the balance sheet date whether there is any indication that assets may be impaired. If any indication exists that an asset may be impaired, the Group estimates the recoverable amount of the asset.

If there is any indication that an asset may be impaired and it is not possible to estimate the recoverable amount of an individual asset, the Group determines the recoverable amount of the CGU to which the asset belongs.

CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash flows from other assets or groups of assets.

The recoverable amount of an asset (or CGU, group of CGUs) is the higher of its fair value less costs to sell and the present value of the expected future cash flows. The Group considers all relevant factors in estimating the present value of future cash flows, such as the expected future cash flows, the useful life and the discount rate.

(a) Testing CGU with goodwill for impairment

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to the CGU or group of CGUs that is expected to benefit from the synergies of the combination.

A CGU or group of CGUs to which goodwill has been allocated is tested for impairment by the Group semi-annually, or whenever there is an indication that the CGU or group of CGUs are impaired, by comparing the carrying amount of the CGU or group of CGUs, including the goodwill, with the recoverable amount of the CGU or group of CGUs. The recoverable amount of the CGU or group of CGUs are the estimated future cash flows, which are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the CGU or group of CGUs with allocated goodwill.

At the time of impairment testing of a CGU or group of CGUs to which goodwill has been allocated, there may be an indication of an impairment of an asset within the CGU containing the goodwill. In such circumstances, the Group tests the asset for impairment first, and recognises any impairment loss for that asset before testing for impairment on the CGU or group of CGUs containing the goodwill. Similarly, there may be an indication of an impairment of a CGU within a group of CGUs containing the goodwill. In such circumstances, the entity tests the CGU for impairment first, and recognises any impairment loss for that CGU, before testing for impairment the group of CGUs to which the goodwill is allocated.

(b) Impairment loss

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is recognised as an impairment loss and charged to the profit or loss.

For a CGU or a group of CGUs, the amount of impairment loss firstly reduces the carrying amount of any goodwill allocated to the CGU or group of CGUs, and then reduces the carrying amount of other assets (other than goodwill) within the CGU or group of CGUs, pro rata on the basis of the carrying amount of each asset.

(c) Reversing an impairment loss

If, in a subsequent period, the amount of impairment loss of the non-financial asset except for goodwill decreases and the decrease can be linked objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the profit or loss. A reversal of impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior periods.

An impairment loss in respect of goodwill is not reversed.

(13) Employee benefits

Employee benefits are all forms of consideration given and compensations incurred by the Group in exchange for services rendered by employees or the termination of the employment relationship. Except for termination benefits, employee benefits are recognised as a liability in the period in which the associated services are rendered by its employees, with a corresponding increase in cost of relevant assets or the expenses in profit or loss. Where payment or settlement is deferred and the effect of discount would be material, these amounts are stated at their present values in the statement of financial position.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(13) Employee benefits (continued)

(a) Post-employment benefits

The Group divides post-employment benefit plans into defined contribution plans and defined benefit plans. Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions. Defined benefit plans are post-employment benefit plans other than defined contribution plans. For defined contribution plans, the Group pays contributions to basic retirement insurance, annuity scheme and unemployment insurance for the employees during the reporting period, while defined benefit plans are mainly supplementary retirement benefits.

Defined contribution retirement schemes

Pursuant to the relevant laws and regulations in the PRC, employees in Mainland China have joined defined contribution retirement schemes for the employees arranged by local government labour and security authorities. The Group makes contributions to the retirement schemes at the applicable rates based on the amounts stipulated by the local government organizations. The contributions are charged to the profit or loss on an accrual basis. When employees retire, the local government labour and security authorities are responsible for the payment of the basic retirement benefits to the retired employees.

Annuity contributions

In addition to the statutory provision contributions, the Bank's employees have joined the annuity scheme set up by the Bank under "CCBC Annuity Scheme" (the "scheme") in accordance with state enterprise annuity regulations. The Bank has made annuity contributions in proportion to its employees' gross wages, which are expensed in profit or loss when the contributions are made.

Supplementary retirement benefits

The Group pays supplementary retirement benefits for its employees in Mainland China who retired on or before 31 December 2003 in addition to the contributions made to statutory insurance schemes. Such supplementary retirement benefits are defined benefit plans.

The Group's obligations in respect of supplementary retirement benefits are calculated by estimating the amount of obligations that the Group is committed to pay to the employees after their retirement using actuarial techniques. At the end of each reporting period, such obligations are discounted with interest yield of government bonds with similar duration. The service cost and net interest from the supplementary retirement benefits are recognised in profit or loss, and the remeasurements are recognised in other comprehensive income.

The liability recognised in the statement of financial position in respect of supplementary retirement benefits is the present value of supplementary retirement benefit obligations at the end of the reporting period less the fair value of plan assets.

(b) Termination benefits

Where the Group terminates the employment relationship with employees before the end of the employment contracts or provides compensation as an offer to encourage employees to accept voluntary redundancy, a provision is recognised for the compensation arising from termination of employment relationship, with a corresponding charge to the profit or loss for the current period. An entity is required to recognise termination benefits at the earlier of when the entity can no longer withdraw an offer of those benefits and when it recognises any related restructuring costs.

(c) Early retirement expenses

The Group recognises the present value of all its liabilities to employees who voluntarily agreed to retire early. The early retirement benefit payments are made by the Group from the date of early retirement to the regulated retirement date. Differences arising from changes in assumptions and estimates of the present value of the liabilities are recognised in profit or loss when incurred.

(d) Staff incentive plan

As approved by the board of directors, for the purposes of providing incentives and rewards to eligible employees for their past services, the Group awards a specified amount of staff compensation to the staff incentive plan independently managed by a designated staff committee for those eligible participating employees. The Group recognises its contribution to the plan when it has a present legal or constructive obligation to make such payment and a reliable estimate of the obligation can be made.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(14) Lease liabilities

At the commencement date of the lease, the Group measures the lease liability at the present value of the lease payments that are not paid at that date, except for short-term leases and leases of low-value assets. In calculating the present value of the lease payments, the Group uses the interest rate implicit in the lease as the discount rate. If that rate cannot be readily determined, the Group uses the lessee's incremental borrowing rate. The Group calculates the interest expenses of the lease liability in each period during the lease term using the constant periodic rate of interest, and recognises such interest expenses in profit or loss, except those in the costs of the related asset as required. Variable lease payments that are not included in the measurement of the lease liabilities are recognised in profit or loss as incurred, except those in the costs of the related asset as required.

After the commencement date, the Group remeasures the lease liability by discounting the revised lease payments using a revised discount rate if either: (i) there is a change in the in-substance fixed lease payments; (ii) there is a change in the amounts expected to be payable under a residual value guarantee; (iii) there is a change in future lease payments resulting from a change in an index or a rate used to determine those payments; (iv) there is a change in the assessment of an option to purchase, extend or terminate the underlying asset, assessed in the context of a purchase option.

(15) Insurance contracts

Insurance contracts classification

Under the contract the insurer signed with the policyholder, the insurer may undertake insurance risk or other risks, or both insurance risk and other risks.

Where the Group undertakes both the insurance risk and other risks, and the insurance risk and other risks can be distinguished and separately measured, the insurance risk shall be separately accounted for as insurance contracts while the other risks shall be accounted for as either investment contracts or service contracts. Where the insurance risk and other risks cannot be distinguished from each other, or can be distinguished but cannot be separately measured, significant insurance risk test shall be performed at the contract's initial recognition date. If the insurance risk is significant, the contract is classified as an insurance contract; otherwise, it is classified as an investment contract or service contract.

Insurance income recognition

Insurance premium income is recognised when all of the following criteria are met:

(a) The insurance contract is issued, and related insurance risk is undertaken by the Group;

(b) The related economic benefits are likely to flow to the Group; and

(c) Related income can be reliably measured.

Insurance contract liabilities

When measuring insurance contract liabilities, the Group identifies insurance contracts where insurance risks are of similar nature as a measurement unit. Insurance contract liabilities are measured based on a reasonably estimated amount of payments that the Group is obliged to pay in order to fulfil relevant obligations under the insurance contract. Structured product that cannot be sold separately is classified as one measurement unit.

The Group performs liability adequacy test at the end of each reporting period. If the insurance contract liabilities re-calculated with the insurance actuarial method exceed their carrying amounts on the date of the liability adequacy test, an additional provision shall be made for the respective insurance contract liabilities based on the differences. Otherwise, no adjustment is made to the respective insurance contract liabilities.

(16) Provisions and contingent liabilities

A provision is recognised in the statement of financial position if, as the result of a past event, the Group has a present legal or constructive obligation that can be reliably estimated and it is probable that an outflow of economic benefits will be required to settle the obligation. A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation. Factors pertaining to a contingency such as the risks, uncertainties and time value of money are taken into account as a whole in reaching the best estimate. Where the effect of the time value of money is material, the best estimate is determined by discounting the related future cash outflows.

A potential obligation arising from a past transaction or event whose existence can only be confirmed by the occurrence or non-occurrence of future uncertain events; or a present obligation that arises from past transactions or events where it is not probable that an outflow of economic benefits is required to settle the obligation or the amount of the obligation cannot be measured reliably, is disclosed as a contingent liability unless the probability of outflow of economic benefit is remote.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(17) 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 issued 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.

(18) Financial guarantees and loan commitments

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due, in accordance with the terms of a debt instrument.

Financial guarantees are initially recognised at fair value on the date the guarantee was given. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial amount, less amortisation of guarantee fees, and the best estimate of the expected credit loss provision required to settle the guarantee. Any increase in the liability relating to guarantees is taken to the consolidated statement of profit and loss.

The impairment allowance of loan commitments provided by the Group is measured by ECL. The Group has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument.

For loan commitments and financial guarantee contracts, the loss allowance is recognised as a provision. However, for contracts that include both a loan and an undrawn commitment and the Group can not separately identify the ECL on the undrawn commitment component from those on the loan component, the ECL on the undrawn commitment are recognised together with the loss allowance for the loan. To the extent that the combined ECL exceed the gross carrying amount of the loan, the ECL are recognised as a provision.

(19) Fiduciary activities

The Group's fiduciary business refers to the management of assets for customers in accordance with custody agreements signed by the Group and securities investment funds, insurance companies, annuity plans and other organisations. The Group fulfils its fiduciary duty and receives relevant fees in accordance with these agreements, and does not take up any risks and rewards related to the assets under custody, which are recorded as off-balance sheet items.

The Group conducts entrusted lending business, whereby it enters into entrusted loan agreements with customers. Under the terms of these agreements, the customers provide funding (the "entrusted funds") to the Group, and the Group grants loans to third parties (the "entrusted loans") according to the instructions of the customers. As the Group does not assume the risks and rewards of the entrusted loans and the corresponding entrusted funds, entrusted loans and funds are recorded as off-balance sheet items at their principal amounts and no impairment assessments are made for these entrusted loans.

(20) Income recognition

Provided the control of goods or services have been transferred to customers in an amount reflects the consideration to which the Group expects to be entitled, revenue is recognised in the income statement as follows:

(a) Interest income

Interest income for interest bearing debt instruments measured at amortized cost and fair value through other comprehensive income is recognised in profit or loss based on effective interest method. Interest income includes the amortisation of any discount or premium or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest basis. The effective interest method is a method of calculating the amortised cost of financial assets and liabilities and of allocating the interest income and interest expense over the relevant period.

(b) Fee and commission income

Fee and commission income is recognised when the performance obligation is satisfied. For those services that are provided over a period of time, fee and commission income is accrued in accordance with the terms and conditions of the service agreement. For other services, fee and commission income is recognised when the transactions are completed.

(c) Dividend income

Dividend income from equity investments is recognised in profit or loss on the date when the Group's right to receive payment is established.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(21) Income tax

Current income tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantially enacted at the end of each reporting period, and any adjustment to tax payable in respect of previous periods. Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax also arises from unused tax losses and unused tax credits. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax losses and unused tax credits can be utilised.

Current income tax and movements in deferred tax balances are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

At the end of each reporting period, deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled according to the requirements of tax laws. The Group also considers the possibility of realisation and the settlement of deferred tax assets and deferred tax liabilities in the calculation.

Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Group has the legally enforceable right to offset current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on the same taxable entity. Otherwise, the balances of deferred tax assets and deferred tax liabilities, and movements therein, are presented separately from each other and are not offset.

(22) Cash equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(23) Profit distribution

Proposed dividends which are declared and approved after the end of each reporting period are not recognised as a liability in the statement of financial position and are instead disclosed as a subsequent event after the end of each reporting period in the note to the financial statements. Dividends payable are recognised as liabilities in the period in which they are approved.

(24) Related parties

If the Group has the power, directly or indirectly, to control, jointly control or exercise significant influence over another party, or vice versa, or where the Group and one or more parties are subject to common control or joint control from another party, they are considered to be related parties. Related parties may be individuals or enterprises. The Group's related parties include but are not limited to the following:

(a) the Bank's parents;

(b) the Bank's subsidiaries;

(c) other entities which are controlled by the Bank's parents;

(d) an investor who has joint control over the Group;

(e) an investor who can exercise significant influence over the Group;

(f) an associate of the Group;

(g) a joint venture entity of the Group;

(h) principal individual investors of the Group, and close family members of such individuals (principal individual investors are the individual investors who have the power, directly or indirectly, to control, jointly control or exercise significant influence over another party);

(i) key management personnel of the Group and close family members of such individuals (key management personnel represent those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director of that entity);

(j) key management personnel of the Bank's parents and close family members of such individuals;

(k) other entities that are controlled or jointly controlled by the Group's principal individual investors, key management personnel, or close family members of such individuals; and

(l) a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(25) Operating segments

The identification of operating segments of the Group is on the basis of internal reports that are regularly reviewed by the Group's chief operating decision makers in order to allocate resources to the segment and assess its performance. On the basis of the operating segments, the Group identifies the reportable segments, using a combination of factors including products and services, geographical areas, regulatory environments etc., which the management has chosen for organization. The operating segments that meet the specified criteria have been aggregated, and the operating segments that meet quantitative thresholds have been reported separately.

The amount reported for each operating segment item is the measure reported to the chief operating decision makers for the purposes of allocating resources to the segment and assessing its performance. Segment information is prepared in conformity with the accounting policies adopted for preparing and presenting the financial statements of the Group.

(26) Significant accounting estimates and judgements

(a) Classification of financial assets

The Group's significant judgments in determining the classification of financial assets include the analysis of business models and contractual cash flow characteristics.

The Group determines the business model for the management of financial assets at the level of portfolios and considers the factors such as how the asset's performance is evaluated and reported to key management personnel, the risks affecting the performance of financial assets and the way in which financial assets are managed, and how managers are compensated.

In assessing whether the contractual cash flow of financial assets is consistent with the basic lending arrangement, the Group uses the following key judgments: whether the principals may change because of the changes of time distribution or amount during the life period due to the reasons such as prepayment; whether the interests includes only the time value of money, credit risk, other basic borrowing risks and the consideration of costs and profits. For example, whether the amount prepaid reflects only the principal that has not yet been paid and the interest based on the outstanding principal, as well as reasonable compensation paid for the early termination of the contract.

(b) Expected credit losses

The measurement of the expected credit loss allowance for the investment in financial assets measured at amortised cost and debt instruments measured at FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring expected credit losses is further detailed in Note 61(1).

A number of significant judgements are required in applying the accounting requirements for measuring expected credit losses, such as:

– Determining criteria for significant increase in credit risk;

– Choosing appropriate models and assumptions for the measurement of expected credit losses;

– Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated expected credit losses; and

– Establishing groups of similar financial assets for the purposes of measuring expected credit losses.

Detailed information about the judgements and estimates made by the Group in the above areas is set out in Note 61(1) credit risk.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(26) Significant accounting estimates and judgements (continued)

(c) Fair value of financial instruments

The fair value of financial instruments that are traded in an active market is based on their quoted market prices in an active market at the valuation date. A quoted market price is a price from an active market where price information is readily and regularly available from an exchange or from a dealer quotation and where this price information represents actual and recurring orderly transactions.

For all other financial instruments, the Group determines fair values using valuation techniques which include discounted cash flow models, as well as other types of valuation model. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, foreign currency exchange rates credit spreads and the liquidity premium. Where discounted cash flow techniques are used, estimated cash flows are based on management's best estimates and the discount rate used is a market rate at the end of each reporting period applicable for an instrument with similar terms and conditions. Where other pricing models are used, inputs are based on the maximising observable market data at the end of each reporting period. However, where market data is not available, the Group needs to make the best estimates on such unobservable market inputs.

The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants in an orderly transaction.

(d) Income taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates the tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations. Deferred tax assets are recognised for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profits will be available against which the unused tax credits can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered.

(e) Employee retirement benefit obligations

The Group has established liabilities in connection with benefits paid to certain retired employees. The amounts of employee benefit expense and liabilities are dependent on assumptions used in calculating such amounts. These assumptions include discount rates, pension benefit inflation rates, medical benefit inflation rates, and other factors. While management believes that its assumptions are appropriate, differences in actual experience or changes in assumptions may affect the Group's other comprehensive income and liability related to its employee retirement benefit obligations.

(f) Scope of consolidation

The Group has taken into consideration all facts and circumstances in the assessment of whether the Group, as an investor, controls the investee. The principle of control includes three elements: (i) power over the investee; (ii) exposure, or rights, to variable returns from involvement with the investee; and (iii) the ability to use power over the investee to affect the amount of the investor's 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.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(27) Changes in significant accounting policies

The Group has adopted IFRS 16 "Leases" ("IFRS 16") as issued by the International Accounting Standards Board ("IASB") in January 2016 with a date of initial application on 1 January 2019, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. As permitted by the transitional provisions of IFRS 16, the Group elected not to restate comparative figures.

The Group has not reassessed existing contracts before the date of initial application and adopted several specified practical expedients, including (a) applying a single discount rate to a portfolio of leases with reasonably similar characteristics; (b) accounting for leases for which the lease term ends within 12 months from the date of initial application in the same way as short-term leases; (c) excluding initial direct costs from the measurement of the right-of-use assets at the date of initial application; and (d) using hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

The Group chose to measure the right-of-use assets at an amount equal to the lease liabilities, adjusted by the amount of prepaid lease payments, etc. Total assets and total liabilities at the group level as at 1 January 2019 both increased by RMB19,944 million as compared to the end of 2018. In addition to land use rights, the Group recognised other right-of-use assets and lease liabilities of RMB21,752 million and RMB19,914 million at the date of initial application, respectively. The reconciliation between the operating lease commitments disclosed in the Group's financial statements for the year ended 31 December 2018, and the lease liabilities recognised in the statement of financial position at the date of initial application is as follows:

Operating lease commitments as at 31 December 2018	22,351
Less: minimum lease payments with recognition exemption	(790)
Add: minimum lease payments arising from reasonably exercising an option to extend the lease	467
Less: impact of discounting at the incremental borrowing rate as at 1 January 2019	(2,114)
Lease liabilities as at 1 January 2019	19,914

5 TAXATION

The Group's main applicable taxes and tax rates are as follows:

Value added tax ("VAT")

Pursuant to the 'Circular on the Comprehensive Plan for Levying VAT in place of Business Tax' (Cai Shui [2016] No.36) jointly issued by the Ministry of Finance ("MOF") and the State Administration of Taxation, business tax that used to be levied on taxable income of the Bank and its subsidiaries in Mainland China was replaced by VAT from 1 May 2016, and the main VAT taxation rate is 6%.

City construction tax

City construction tax is calculated as 1% to 7% of VAT.

Education surcharge

Education surcharge is calculated as 3% of VAT.

Local education surcharge

Local education surcharge is calculated as 2% of VAT.

Income tax

The income tax rate that is applicable to the Bank and its subsidiaries in Mainland China is 25%. Taxation on overseas operations is charged at the relevant local rates.Tax paid on overseas operations is set off to the extent allowed under the relevant income tax laws of the PRC.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

6 NET INTEREST INCOME

	2019	2018
Interest income arising from:		
Deposits with central banks	34,769	38,892
Deposits with banks and non-bank financial institutions	9,027	12,231
Placements with banks and non-bank financial institutions	11,052	11,765
Financial assets held under resale agreements	8,657	9,049
Investment securities	189,465	172,147
Loans and advances to customers		
– Corporate loans and advances	341,616	322,082
– Personal loans and advances	274,965	239,888
– Discounted bills	13,948	4,972
Total	883,499	811,026
Interest expense arising from:		
Borrowings from central banks	(14,326)	(15,671)
Deposits from banks and non-bank financial institutions	(32,248)	(36,441)
Placements from banks and non-bank financial institutions	(14,344)	(13,684)
Financial assets sold under repurchase agreements	(1,296)	(1,340)
Debt securities issued	(29,671)	(24,735)
Deposits from customers		
– Corporate deposits	(130,879)	(118,392)
– Personal deposits	(150,055)	(114,485)
Total	(372,819)	(324,748)
Net interest income	510,680	486,278

(1) Interest income from impaired financial assets is listed as follows:

	2019	2018
Impaired loans and advances	2,816	3,229
Other impaired financial assets	276	83
Total	3,092	3,312

(2) Interest expense on financial liabilities with maturity over five years mainly represented the interest expense on debt securities issued.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

7 NET FEE AND COMMISSION INCOME

	2019	2018
Fee and commission income		
Bank card fees	**52,620**	46,192
Electronic banking service fees	**25,666**	18,585
Agency service fees	**16,894**	16,044
Commission on trust and fiduciary activities	**14,194**	12,748
Wealth management service fees	**12,899**	11,113
Settlement and clearing fees	**12,267**	12,101
Consultancy and advisory fees	**10,331**	10,441
Guarantee fees	**3,633**	3,414
Credit commitment fees	**1,449**	1,573
Others	**5,309**	5,806
Total	**155,262**	138,017
Fee and commission expense		
Bank card transaction fees	**(8,859)**	(8,000)
Inter-bank transaction fees	**(1,277)**	(1,360)
Others	**(7,842)**	(5,622)
Total	**(17,978)**	(14,982)
Net fee and commission income	**137,284**	123,035

8 NET TRADING GAIN

	2019	2018
Debt securities	**8,384**	11,496
Derivatives	**250**	(66)
Equity investments	**5**	(450)
Others	**481**	1,634
Total	**9,120**	12,614

9 DIVIDEND INCOME

	2019	2018
Dividend income from equity investments measured at fair value through profit or loss	**1,148**	676
Dividend income from equity investments measured at fair value through other comprehensive income	**36**	97
Total	**1,184**	773

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

10 NET GAIN ARISING FROM INVESTMENT SECURITIES

	2019	2018
Net gain related to financial assets designated as measured at fair value through profit or loss	8,699	15,567
Net loss related to financial liabilities designated as measured at fair value through profit or loss	(9,399)	(14,761)
Net gain related to other financial assets and liabilities measured at fair value through profit or loss	8,687	1,938
Net gain related to financial assets measured at fair value through other comprehensive income	711	499
Net revaluation gain reclassified from other comprehensive income on disposal	234	204
Others	161	(3)
Total	9,093	3,444

11 NET GAIN/(LOSS) ON DERECOGNITION OF FINANCIAL ASSETS MEASURED AT AMORTISED COST

For the year ended 31 December 2019, a net gain on derecognition of financial assets measured at amortised cost mainly attributes to the Group's issuance of asset-backed securities, which led to RMB2,820 million net gains arising from derecognition of loans and advances to customers (for the year ended 31 December 2018: net losses RMB2,507 million).

12 OTHER OPERATING INCOME, NET

Other operating income

	2019	2018
Insurance related income	22,914	21,495
Foreign exchange gains	4,617	6,153
Rental income	2,981	2,790
Others	5,615	5,480
Total	36,127	35,918

Foreign exchange gains or losses includes gains and losses in connection with the translation of foreign currency denominated monetary assets and liabilities, and net realised and unrealised gains and losses on foreign exchange derivatives (including those foreign exchange swaps, foreign exchange options and cross currency swaps entered into in order to economically hedge positions in foreign currency assets).

Other operating expense

	2019	2018
Insurance related costs	22,354	20,714
Others	6,492	5,335
Total	28,846	26,049

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

13 OPERATING EXPENSES

	2019	2018
Staff costs		
– Salaries, bonuses, allowances and subsidies	70,342	66,788
– Other social insurance and welfare	11,673	11,187
– Housing funds	6,521	6,390
– Union running costs and employee education costs	2,948	2,820
– Defined contribution plans	14,275	14,850
– Early retirement expenses	19	20
– Compensation to employees for termination of employment relationship	6	2
	105,784	102,057
Premises and equipment expenses		
– Depreciation charges	21,304	15,447
– Rent and property management expenses	4,952	9,926
– Maintenance	3,394	3,000
– Utilities	1,851	1,953
– Others	2,174	2,064
	33,675	32,390
Taxes and surcharges	6,777	6,132
Amortisation expenses	2,623	2,427
Audit fees	163	162
Other general and administrative expenses	39,110	31,596
Total	188,132	174,764

14 CREDIT IMPAIRMENT LOSSES

	2019	2018
Loans and advances to customers	148,942	143,045
Financial investments		
– Financial assets measured at amortised cost	5,789	1,072
– Financial assets measured at fair value through other comprehensive income	1,497	16
Off-balance sheet business	4,343	5,435
Others	2,429	1,541
Total	163,000	151,109

15 OTHER IMPAIRMENT LOSSES

	2019	2018
Other impairment losses	521	(121)

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

16 DIRECTORS' AND SUPERVISORS' EMOLUMENTS

The aggregate of the emoluments before individual income tax in respect of the directors and supervisors who held office during the year is as follows:

	2019				
	Fees RMB'000	Remuneration paid RMB'000	Contributions to defined contribution retirement schemes RMB'000	Other benefits in kind (Note (v)) RMB'000	Total (Note (i)) RMB'000
Executive directors					
Tian Guoli (Note (vi))	–	579	50	119	748
Liu Guiping (Note (ii) & (vi))	–	386	31	77	494
Zhang Gengsheng (Note (vi))	–	521	50	115	686
Non-executive directors					
Feng Bing (Note (iii))	–	–	–	–	–
Zhu Hailin (Note (iii))	–	–	–	–	–
Zhang Qi (Note (iii))	–	–	–	–	–
Tian Bo (Note (ii) & (iii))	–	–	–	–	–
Xia Yang (Note (ii) & (iii))	–	–	–	–	–
Independent non-executive directors					
Anita Fung Yuen Mei	415	–	–	–	415
Malcolm Christopher McCarthy	410	–	–	–	410
Carl Walter	442	–	–	–	442
Kenneth Patrick Chung	430	–	–	–	430
Graeme Wheeler (Note (ii))	110	–	–	–	110
Supervisors					
Wang Yongqing (Note (ii) & (vi))	–	241	19	47	307
Wu Jianhang (Note (vi))	–	660	50	146	856
Fang Qiuyue (Note (vi))	–	660	46	154	860
Lu Kegui (Note (iv))	50	–	–	–	50
Cheng Yuanguo (Note (iv))	50	–	–	–	50
Wang Yi (Note (iv))	50	–	–	–	50
Zhao Xijun (Note (ii))	138	–	–	–	138
Former executive director					
Wang Zuji (Note (ii) & (vi))	–	137	14	31	182
Former non-executive directors					
Li Jun (Note (ii) & (iii))	–	–	–	–	–
Wu Min (Note (ii) & (iii))	–	–	–	–	–
Former independent non-executive directors					
Chung Shui Ming Timpson (Note(ii))	220	–	–	–	220
Murray Horn (Note (ii))	353	–	–	–	353
Former supervisor					
Bai Jianjun (Note (ii))	125	–	–	–	125
	2,793	3,184	260	689	6,926

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

16 DIRECTORS' AND SUPERVISORS' EMOLUMENTS (CONTINUED)

The aggregate of the emoluments before individual income tax in respect of the directors and supervisors who held office during the year is as follows: (continued)

	2018			
	Accrued cost (Allowances) RMB'000	Social insurance, corporate annuity, supplementary medical insurance and housing fund paid by the Bank RMB'000	Other monetary income RMB'000	Total RMB'000
Executive directors				
Tian Guoli	793	165	–	958
Wang Zuji	793	165	–	958
Zhang Gengsheng	713	162	–	875
Non-executive directors				
Feng Bing (Note (iii))	–	–	–	–
Zhu Hailin (Note (iii))	–	–	–	–
Li Jun (Note (ii) & (iii))	–	–	–	–
Wu Min (Note (ii) & (iii))	–	–	–	–
Zhang Qi (Note (iii))	–	–	–	–
Independent non-executive directors				
Anita Fung Yuen Mei	413	–	–	413
Malcolm Christopher McCarthy	410	–	–	410
Carl Walter	440	–	–	440
Chung Shui Ming Timpson (Note (ii))	440	–	–	440
Kenneth Patrick Chung	70	–	–	70
Murray Horn (Note (ii))	470	–	–	470
Supervisors				
Wu Jianhang	936	98	–	1,034
Fang Qiuyue	936	103	–	1,039
Lu Kegui	29	–	–	29
Cheng Yuanguo	29	–	–	29
Wang Yi	29	–	–	29
Bai Jianjun (Note (ii))	250	–	–	250
Former executive director				
Pang Xiusheng	535	117	–	652
Former non-executive director				
Hao Aiqun	–	–	–	–
Former supervisors				
Guo You	264	49	–	313
Liu Jin	936	91	–	1,027
Li Xiaoling	936	49	–	985
Li Xiukun	21	–	–	21
Jin Yanmin	21	–	–	21
Li Zhenyu	21	–	–	21
	9,485	999	–	10,484

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

16 DIRECTORS' AND SUPERVISORS' EMOLUMENTS (CONTINUED)

Notes:

(i) The amounts of emoluments for the year ended 31 December 2019 in respect of the services rendered by the directors and supervisors are subject to the approval of the Annual General Meeting.

(ii) Upon election at the 2018 annual general meeting of the Bank and approval of the CBIRC, Mr. Graeme Wheeler commenced his position as independent non-executive director of the Bank from October 2019. Upon election at the 2018 annual general meeting of the Bank and approval of the CBIRC, Mr. Tian Bo and Mr. Xia Yang commenced their positions as non-executive directors of the Bank from August 2019. Upon election at the 2018 annual general meeting of the Bank and approval of the CBIRC, Mr. Liu Guiping commenced his position as executive director and vice chairman of the Bank from July 2019; upon appointment of the Board of the Bank and approval of the CBIRC, Mr. Liu Guiping commenced his position as president of the Bank from May 2019.

Due to change of job, Mr. Wu Min ceased to serve as non-executive director of the Bank from December 2019. Due to change of job, Mr. Murray Horn ceased to serve as independent non-executive director of the Bank from September 2019. Due to expiration of his term of office, Mr. Chung Shui Ming Timpson ceased to serve as independent non-executive director of the Bank from June 2019. Due to retirement, Mr. Li Jun ceased to serve as non-executive director of the Bank from May 2019. By reason of his age, Mr. Wang Zuji ceased to serve as vice chairman of the Board, executive director and president of the Bank from March 2019.

Upon election at the 2019 first extraordinary general meeting of the Bank and the 2019 fifth meeting of the board of supervisors, Mr. Wang Yongqing commenced his position as chairman of the board of supervisors and the shareholder representative supervisor of the Bank from October 2019. Upon election at the 2018 annual general meeting of the Bank, Mr. Zhao Xijun commenced his position as external supervisor of the Bank from June 2019.

Due to expiration of his term of office, Mr. Bai Jianjun ceased to serve as external supervisor of the Bank from June 2019.

(iii) The Bank does not need to pay the emoluments of non-executive directors appointed by Huijin for the services rendered in 2019 and 2018.

(iv) The amounts only included fees for their services as supervisors.

(v) Other benefits in kind included the Bank's contributions to medical fund, housing fund and other social insurances, which are payable to labour and security authorities based on the lower of certain percentage of the salaries and allowance or the prescribed upper limits as required by the relevant regulations issued by the government authorities. Other benefits also included the Bank's contribution to its own corporate annuity plan (which was set up in accordance with the relevant policies issued by the government authorities) and supplementary medical insurance.

(vi) The total compensation package for these 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 a significant impact on the Group's financial statements for the year ended 31 December 2019. The final compensation will be disclosed in a separate announcement when determined.

(vii) The total compensation package for certain directors and supervisors for the year ended 31 December 2018 had not been finalised in accordance with regulations of the PRC relevant authorities till the date that the 2018 financial statements were announced. The aforesaid total compensation package for the directors and supervisors for the year ended 31 December 2018 was the final amount.

(viii) From 2015 onwards, remuneration of the Bank's leaders administered by central authorities are paid in accordance with relevant policies relating to the central remuneration reform.

None of the directors and supervisors received any inducements or compensation for loss of office, or waived any emoluments during the years ended 31 December 2019 and 2018.

17 INDIVIDUALS WITH HIGHEST EMOLUMENTS

None of the five individuals with the highest emoluments are directors or supervisors whose emoluments are disclosed in Note 16. The aggregate of the emoluments before individual income tax in respect of the five highest paid individuals during the year is as follows:

	2019 **RMB' 000**	2018 RMB' 000
Salaries and allowance	**15,644**	15,861
Variable compensation	**32,370**	34,352
Contributions to defined contribution retirement schemes	**792**	1,144
Other benefit in kind	**706**	627
	49,512	51,984

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

17 INDIVIDUALS WITH HIGHEST EMOLUMENTS (CONTINUED)

The number of these individuals whose emoluments before individual income tax are within the following bands is set out below.

	2019	2018
RMB8,000,001 – RMB8,500,000	–	–
RMB8,500,001 – RMB9,000,000	1	–
RMB9,000,001 – RMB9,500,000	1	–
RMB9,500,001 – RMB10,000,000	–	1
RMB10,000,001 – RMB10,500,000	2	3
RMB10,500,001 – RMB11,000,000	–	–
RMB11,000,001 – RMB11,500,000	1	1
RMB11,500,001 – RMB12,000,000	–	–

None of these individuals received any inducements or compensation for loss of office, or waived any emoluments during the year ended 31 December 2019 and 2018.

18 INCOME TAX EXPENSE

(1) Income tax expense

	2019	2018
Current tax	74,013	72,531
– Mainland China	71,045	69,949
– Hong Kong	1,340	1,444
– Other countries and regions	1,628	1,138
Adjustments for prior years	498	(1,928)
Deferred tax	(17,136)	(18,069)
Total	57,375	52,534

The provisions for income taxes for Mainland China and Hong Kong are calculated at 25% and 16.5% of the estimated taxable income from Mainland China and Hong Kong operations for the reporting period, respectively. Taxation for other overseas operations is charged at the appropriate current rates of taxation ruling in the relevant tax jurisdictions.

(2) Reconciliation between income tax expense and accounting profit

	Note	2019	2018
Profit before tax		326,597	308,160
Income tax calculated at the 25% statutory tax rate		81,649	77,040
Effects of different applicable rates of tax prevailing in other countries/regions		(234)	(740)
Non-deductible expenses	(i)	11,891	9,212
Non-taxable income	(ii)	(36,429)	(31,050)
Adjustments on income tax for prior years which affect profit or loss		498	(1,928)
Income tax expense		57,375	52,534

(i) Non-deductible expenses primarily include non-deductible losses resulting from write-off of loans, and items that are in excess of deductible amount under the relevant PRC tax regulations such as staff costs and entertainment expenses.

(ii) Non-taxable income primarily includes interest income from PRC government bonds and local government bonds.

19 EARNINGS PER SHARE

Basic earnings per share for the year ended 31 December 2019 and 2018 has been computed by dividing the net profit attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the year.

For the purpose of calculating basic earnings per share, dividends on non-cumulative preference shares declared in respect of the period should be deducted from the amounts attributable to equity shareholders of the Bank.

The conversion feature of preference shares is considered to be contingently issuable ordinary shares. The triggering events of conversion did not occur for the year ended 31 December 2019 and 2018, therefore the conversion feature of preference shares has no effect on the basic and diluted earnings per share calculation.

	2019	2018
Net profit attributable to equity shareholders of the Bank	266,733	254,655
Less: profit for the year attributable to preference shareholders of the Bank	(3,962)	(3,936)
Net profit attributable to ordinary shareholders of the Bank	262,771	250,719
Weighted average number of ordinary shares (in millions of shares)	250,011	250,011
Basic earnings per share attributable to ordinary shareholders of the Bank (in RMB Yuan)	1.05	1.00
Diluted earnings per share attributable to ordinary shareholders of the Bank (in RMB Yuan)	1.05	1.00

20 CASH AND DEPOSITS WITH CENTRAL BANKS

	Note	31 December 2019	31 December 2018
Cash		60,791	65,215
Deposits with central banks			
– Statutory deposit reserves	(1)	2,094,800	2,130,958
– Surplus deposit reserves	(2)	398,676	389,425
– Fiscal deposits and others		65,825	46,095
Accrued interest		918	1,170
Total		2,621,010	2,632,863

(1) The Group places statutory deposit reserves with the People's Bank of China ("PBOC") and overseas central banks where it has operations. The statutory deposit reserves are not available for use in the Group's daily business.

As at the end of the reporting period, the Bank's statutory deposit reserve rates in Mainland China were as follows:

	31 December 2019	31 December 2018
Reserve rate for RMB deposits	11.50%	13.00%
Reserve rate for foreign currency deposits	5.00%	5.00%

The statutory RMB deposit reserve rates applicable to domestic subsidiaries of the Group are determined by the PBOC.

The amounts of statutory deposit reserves placed with the central banks of overseas countries are determined by local jurisdictions.

(2) The surplus deposit reserve maintained with the PBOC is mainly for the purpose of clearing.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

21 DEPOSITS WITH BANKS AND NON-BANK FINANCIAL INSTITUTIONS

(1) Analysed by type of counterparties

	31 December 2019	31 December 2018
Banks	406,202	468,564
Non-bank financial institutions	12,605	15,703
Accrued interest	1,072	2,912
Gross balances	419,879	487,179
Allowances for impairment losses (Note 35)	(218)	(230)
Net balances	419,661	486,949

(2) Analysed by geographical sectors

	31 December 2019	31 December 2018
Mainland China	371,963	451,606
Overseas	46,844	32,661
Accrued interest	1,072	2,912
Gross balances	419,879	487,179
Allowances for impairment losses (Note 35)	(218)	(230)
Net balances	419,661	486,949

For the year ended 31 December 2019 and 2018, the book value of deposits with banks and non-bank financial institutions was in Stage 1. The book value and the impairment loss allowances do not involve the transfers between stages.

22 PLACEMENTS WITH BANKS AND NON-BANK FINANCIAL INSTITUTIONS

(1) Analysed by type of counterparties

	31 December 2019	31 December 2018
Banks	387,211	240,418
Non-bank financial institutions	141,822	107,285
Accrued interest	2,338	2,138
Gross balances	531,371	349,841
Allowances for impairment losses (Note 35)	(225)	(114)
Net balances	531,146	349,727

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

22 PLACEMENTS WITH BANKS AND NON-BANK FINANCIAL INSTITUTIONS (CONTINUED)

(2) Analysed by geographical sectors

	31 December 2019	31 December 2018
Mainland China	339,185	187,065
Overseas	189,848	160,638
Accrued interest	2,338	2,138
Gross balances	531,371	349,841
Allowances for impairment losses (Note 35)	(225)	(114)
Net balances	531,146	349,727

For the year ended 31 December 2019 and 2018, the book value of placements with banks and non-bank financial institutions was in Stage 1. The book value and the impairment loss allowances do not involve the transfers between stages.

23 DERIVATIVES AND HEDGE ACCOUNTING

(1) Analysed by type of contract

		31 December 2019			31 December 2018		
	Note	Notional amounts	Assets	Liabilities	Notional amounts	Assets	Liabilities
Interest rate contracts		535,745	1,187	2,088	302,322	1,998	1,902
Exchange rate contracts		3,727,006	31,681	29,726	4,947,440	47,749	44,772
Other contracts	(a)	85,784	1,773	1,968	89,325	854	1,851
Total		4,348,535	34,641	33,782	5,339,087	50,601	48,525

(2) Analysed by counterparty credit risk-weighted assets

	Note	31 December 2019	31 December 2018
Counterparty credit default risk-weighted assets			
– Interest rate contracts		2,670	1,365
– Exchange rate contracts		37,124	21,402
– Other contracts	(a)	1,500	2,276
Subtotal		41,294	25,043
Risk-weighted assets for credit valuation adjustment		14,194	12,493
Total		55,488	37,536

The notional amounts of derivatives only represent the unsettled transaction volumes as at the end of the reporting period, instead of the amounts of risk assets. Since 1 January 2013, the Group has adopted Capital Rules for Commercial Banks (Provisional) and other related policies. According to the rules set out by the CBIRC, the counterparty credit risk-weighted assets include risk-weighted assets for credit valuation adjustments with the considerations of counterparty status and maturity characteristics, and include back-to-back client-driven transactions. The risk-weighted assets for counterparty credit risk of derivatives of the Group were calculated in accordance with the Rules on Measuring Derivative Counterparty Default Risk Assets since 1 January 2019.

(a) Other contracts mainly consist of precious metals and commodity contracts.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

23 DERIVATIVES AND HEDGE ACCOUNTING (CONTINUED)

(3) Hedge accounting

The following designated hedging instruments are included in the derivative financial instruments disclosed above.

	31 December 2019			31 December 2018		
	Notional amounts	**Assets**	**Liabilities**	Notional amounts	Assets	Liabilities
Fair value hedges						
Interest rate swaps	**39,801**	**83**	**(344)**	46,452	559	(88)
Cross currency swaps	**35**	**–**	**–**	344	17	–
Cash flow hedges						
Foreign exchange swaps	**39,146**	**640**	**(193)**	45,146	324	(330)
Cross currency swaps	**–**	**–**	**–**	4,007	238	(6)
Interest rate swaps	**13,608**	**25**	**(78)**	17,156	37	(79)
Total	**92,590**	**748**	**(615)**	113,105	1,175	(503)

(a) *Fair value hedge*

The Group uses interest rate swaps and cross currency swaps to hedge against changes in fair value of financial assets measured at FVOCI, debt securities issued, deposits from customers, and loans and advances to customers arising from changes in interest rates and exchange rates.

Net (losses)/gains on fair value hedges are as follows:

	2019	2018
Net (losses)/gains on		
– hedging instruments	**(664)**	72
– hedged items	**661**	(69)

The gain and loss arising from the ineffective portion of fair value hedges were immaterial for the year ended 31 December 2019 and 2018.

(b) *Cash flow hedge*

The Group uses foreign exchange swaps, cross currency swaps and interest rate swaps to hedge against exposures to cash flow variability primarily from interest rate and foreign exchange risks of deposits from customers, loans and advances to customers, debt security issued, placement from banks and non-bank financial institutions, placements with banks and non-bank financial institutions, financial assets measured at FVPL and financial assets measured at FVOCI. The maturities of hedging instruments and hedged items are both within five years.

For the year ended 31 December 2019, the Group's net loss from the cash flow hedge of RMB292 million was recognised in other comprehensive income (for the year ended 31 December 2018: net loss of RMB267 million) and the gain and loss arising from the ineffective portion of cash flow hedge were immaterial.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

24 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

Financial assets held under resale agreements by underlying assets are shown as follows:

	31 December 2019	31 December 2018
Debt securities		
– Government bonds	**189,501**	62,775
– Debt securities issued by policy banks, banks and non-bank financial institutions	**299,738**	77,639
– Corporate bonds	**25**	28
Subtotal	**489,264**	140,442
Discounted bills	**68,345**	61,302
Accrued interest	**263**	145
Gross balance	**557,872**	201,889
Allowances for impairment losses (Note 35)	**(63)**	(44)
Net balances	**557,809**	201,845

For the year ended 31 December 2019 and 2018, the book value of financial assets held under resale agreements was in Stage 1. The book value and the impairment loss allowances do not involve the transfers between stages.

25 LOANS AND ADVANCES TO CUSTOMERS

(1) Analysed by measurement

	Note	31 December 2019	31 December 2018
Loans and advances to customers measured at amortised cost		**14,479,931**	13,405,030
Less: allowances for impairment losses		**(482,158)**	(417,623)
The carrying amount of loans and advances to customers measured at amortised cost	(a)	**13,997,773**	12,987,407
The carrying amount of loans and advances to customers measured at fair value through other comprehensive income	(b)	**492,693**	308,368
The carrying amount of loans and advances to customers measured at fair value through profit or loss	(c)	**15,282**	32,857
Accrued interest		**34,919**	36,798
The carrying amount of loans and advances to customers		**14,540,667**	13,365,430

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

25 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(1) Analysed by measurement (continued)

(a) *Loans and advances to customers measured at amortised cost*

	31 December 2019	31 December 2018
Corporate loans and advances		
– Loans	7,789,682	7,309,538
– Finance leases	137,769	136,071
	7,927,451	7,445,609
Personal loans and advances		
– Residential mortgages	5,355,724	4,844,440
– Personal consumer loans	199,007	214,783
– Personal business loans	44,918	37,287
– Credit cards	745,137	655,190
– Others	207,694	205,845
	6,552,480	5,957,545
Discounted bills	–	1,876
Gross loans and advances to customers measured at amortised cost	14,479,931	13,405,030
Stage 1	(240,027)	(183,615)
Stage 2	(92,880)	(93,624)
Stage 3	(149,251)	(140,384)
Allowances for impairment losses (Note 35)	(482,158)	(417,623)
Net loans and advances to customers measured at amortised cost	13,997,773	12,987,407

(b) *Loans and advances to customers measured at fair value through other comprehensive income*

	31 December 2019	31 December 2018
Discounted bills	492,693	308,368

(c) *Loans and advances to customers measured at fair value through profit or loss*

	31 December 2019	31 December 2018
Corporate loans and advances	15,282	32,857

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

25 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(2) Analysed by assessment method of expected credit losses

	31 December 2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Gross loans and advances to customers measured at amortised cost	**13,804,206**	**463,976**	**211,749**	**14,479,931**
Less: allowances for impairment losses	**(240,027)**	**(92,880)**	**(149,251)**	**(482,158)**
The carrying amount of loans and advances to customers measured at amortised cost	**13,564,179**	**371,096**	**62,498**	**13,997,773**
The carrying amount of loans and advances to customers measured at fair value through other comprehensive income	**490,545**	**1,424**	**724**	**492,693**
Allowances for impairment losses on loans and advances to customers measured at fair value through other comprehensive income	**(958)**	**(94)**	**(570)**	**(1,622)**

	31 December 2018			
	Stage 1	Stage 2	Stage 3	Total
Gross loans and advances to customers measured at amortised cost	12,808,032	396,117	200,881	13,405,030
Less: allowances for impairment losses	(183,615)	(93,624)	(140,384)	(417,623)
The carrying amount of loans and advances to customers measured at amortised cost	12,624,417	302,493	60,497	12,987,407
The carrying amount of loans and advances to customers measured at fair value through other comprehensive income	308,346	22	–	308,368
Allowances for impairment losses on loans and advances to customers measured at fair value through other comprehensive income	(944)	(2)	–	(946)

For loans and advances to customers at Stages 1 and 2 and personal loans and advances at Stage 3, the expected credit loss ("ECL") model is used to calculate the ECL amount, while for corporate loans and advances and discounted bills at Stage 3, the discounted cash flow model is used.

The segmentation of the loans mentioned above is defined in Note 61(1).

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

25 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(3) Movements of allowances for impairment losses

		2019			
	Note	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2019		**183,615**	**93,624**	**140,384**	**417,623**
Transfers:					
Transfers in/(out) to Stage 1		**6,416**	**(6,061)**	**(355)**	**–**
Transfers in/(out) to Stage 2		**(7,197)**	**8,537**	**(1,340)**	**–**
Transfers in/(out) to Stage 3		**(2,163)**	**(18,815)**	**20,978**	**–**
Newly originated or purchased financial assets		**116,460**	**–**	**–**	**116,460**
Transfer out/repayment	(i)	**(76,030)**	**(12,040)**	**(50,416)**	**(138,486)**
Remeasurements	(ii)	**18,926**	**27,635**	**81,082**	**127,643**
Write-off		**–**	**–**	**(49,078)**	**(49,078)**
Recoveries of loans and advances written off		**–**	**–**	**7,996**	**7,996**
As at 31 December 2019		**240,027**	**92,880**	**149,251**	**482,158**

		2018			
	Note	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2018		149,249	65,887	128,666	343,802
Transfers:					
Transfers in/(out) to Stage 1		3,153	(2,578)	(575)	–
Transfers in/(out) to Stage 2		(4,241)	5,041	(800)	–
Transfers in/(out) to Stage 3		(1,476)	(16,077)	17,553	–
Newly originated or purchased financial assets		88,574	–	–	88,574
Transfer out/repayment	(i)	(60,428)	(9,578)	(40,718)	(110,724)
Remeasurements	(ii)	8,784	50,929	73,514	133,227
Write-off		–	–	(43,879)	(43,879)
Recoveries of loans and advances written off		–	–	6,623	6,623
As at 31 December 2018		183,615	93,624	140,384	417,623

(i) Transfer out/repayment refers to transfer of creditor's rights, securitisation of assets, debt-to-equity swap and as a result of foreclosures, as well as repayment of the loans.

(ii) Remeasurements comprise the impact of changes in Probability of Default ("PD"), Loss Given Default ("LGD") or Exposure at Default ("EAD"); changes in model assumptions and methodology; credit loss changes due to stage-transfer; unwinding of discount; and the impact of exchange rate changes.

The allowances for impairment losses disclosed above are for loans and advances to customers measured at amortised cost.

For the year ended 31 December 2019, the changes of gross carrying amounts of loans and advances to customers with a significant impact on the Group's impairment allowance mainly resulted from credit business in Mainland China, including:

For the year ended 31 December 2019, the gross carrying amount of domestic branches corporate loans and advances to customers transferred from Stage 1 to Stage 2 were RMB162,163 million. The gross carrying amount of loans transferred from Stage 2 to Stage 3 were RMB53,519 million. The gross carrying amount of the loans transferred from Stage 2 to Stage 1 were RMB27,999 million. The changes of impairment allowances resulting from loans transferred from Stage 1 to Stage 3, and Stage 3 to Stage 1 and Stage 2 were not significant. For the year ended 31 December 2019, the changes of impairment allowances resulting from stage-transfer of domestic branches personal loans and advances to customers were not significant.

For the year ended 31 December 2019, the gross carrying amount of the loans of which impairment allowances were transferred from Stage 3 to Stage 2, and from Stage 3 or Stage 2 to Stage 1, due to the modification of contractual cash flows of domestic branches which did not result in derecognition were not significant.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

25 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(4) Overdue loans analysed by overdue period

	31 December 2019				
	Overdue within three months	**Overdue between three months and one year**	**Overdue between one year and three years**	**Overdue over three years**	**Total**
Unsecured loans	**17,134**	**14,363**	**4,829**	**757**	**37,083**
Guaranteed loans	**8,490**	**24,773**	**17,813**	**5,593**	**56,669**
Loans secured by property and other immovable assets	**20,387**	**25,982**	**17,080**	**5,507**	**68,956**
Other pledged loans	**2,556**	**4,304**	**3,121**	**194**	**10,175**
Total	**48,567**	**69,422**	**42,843**	**12,051**	**172,883**
As a percentage of gross loans and advances to customers	**0.32%**	**0.46%**	**0.29%**	**0.08%**	**1.15%**

	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	13,719	12,734	4,547	825	31,825
Guaranteed loans	13,461	27,875	21,495	3,206	66,037
Loans secured by property and other immovable assets	25,407	22,671	19,243	5,188	72,509
Other pledged loans	2,458	1,983	685	224	5,350
Total	55,045	65,263	45,970	9,443	175,721
As a percentage of gross loans and advances to customers	0.40%	0.47%	0.33%	0.07%	1.27%

Overdue loans represent loans of which the whole or part of the principal or interest is overdue for 1 day or more.

(5) Packaged disposal of non-performing loans

For the year ended 31 December 2019, the total amount of non-performing loans sold through packaged disposal to external asset management companies was RMB28,902 million (for the year ended 31 December 2018: RMB36,136 million).

(6) Write-off

According to the Group's write-off policy, it is required to continue to recover the bad debts that are written off. For the year ended 31 December 2019, the amount of the loans and advances to customers that the Group has written off but still under enforcement was RMB29,128 million (for the year ended 31 December 2018: RMB16,910 million).

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

26 FINANCIAL INVESTMENTS

(1) Analysed by measurement

	Note	31 December 2019	31 December 2018
Financial assets measured at fair value through profit or loss	(a)	**675,361**	731,217
Financial assets measured at amortised cost	(b)	**3,740,296**	3,272,514
Financial assets measured at fair value through other comprehensive income	(c)	**1,797,584**	1,711,178
Total		**6,213,241**	5,714,909

(a) Financial assets measured at fair value through profit or loss

Analysed by nature

	Note	31 December 2019	31 December 2018
Held-for-trading purposes			
– Debt securities	(i)	**229,946**	218,757
– Equity instruments and funds	(ii)	**940**	1,706
		230,886	220,463
Financial assets designated as measured at fair value through profit or loss			
– Debt securities	(iii)	**9,256**	14,909
– Other debt instruments	(iv)	**182,369**	350,578
		191,625	365,487

	Note	31 December 2019	31 December 2018
Others			
– Credit investments	(v)	**6,161**	14,257
– Debt securities	(vi)	**68,921**	31,740
– Funds and others	(vii)	**177,768**	99,270
		252,850	145,267
Total		**675,361**	731,217

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

26 FINANCIAL INVESTMENTS (CONTINUED)

(1) Analysed by measurement (continued)

(a) Financial assets measured at fair value through profit or loss (continued)

Analysed by type of issuers

Held-for-trading purposes

(i) Debt securities

	31 December 2019	31 December 2018
Government	8,392	8,361
Central banks	443	–
Policy banks	44,466	41,068
Banks and non-bank financial institutions	59,224	52,288
Enterprises	117,421	117,040
Total	229,946	218,757
Listed (Note)	229,503	218,757
– of which in Hong Kong	953	1,091
Unlisted	443	–
Total	229,946	218,757

Note: Debt securities traded on the China Domestic Interbank Bond Market are classified as "Listed".

(ii) Equity instruments and funds

	31 December 2019	31 December 2018
Banks and non-bank financial institutions	61	453
Enterprises	879	1,253
Total	940	1,706
Listed	940	1,677
– of which in Hong Kong	772	1,150
Unlisted	–	29
Total	940	1,706

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

26 FINANCIAL INVESTMENTS (CONTINUED)

(1) Analysed by measurement (continued)

(a) *Financial assets measured at fair value through profit or loss (continued)*

Analysed by type of issuers (continued)

Financial assets designated as measured at fair value through profit or loss

(iii) Debt securities

	31 December 2019	31 December 2018
Government	470	–
Enterprises	8,786	14,909
Total	9,256	14,909
Listed	1,111	–
– of which in Hong Kong	355	–
Unlisted	8,145	14,909
Total	9,256	14,909

(iv) Other debt instruments

	31 December 2019	31 December 2018
Banks and non-bank financial institutions	122,285	257,813
Enterprises	60,084	92,765
Total	182,369	350,578

Other debt instruments were mainly the deposits with banks and non-bank financial institutions, debt securities and credit assets invested by principal guaranteed wealth management products (Note 28(2)).

The amounts of changes in the fair value of these financial assets that are attributable to changes in credit risk are considered not significant during the year presented and cumulatively as at 31 December 2019 and 2018.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

26 FINANCIAL INVESTMENTS (CONTINUED)

(1) Analysed by measurement (continued)

(a) Financial assets measured at fair value through profit or loss (continued)

Analysed by type of issuers (continued)

Others

(v) Credit investments

	31 December 2019	31 December 2018
Banks and non-bank financial institutions	**1,706**	14,257
Enterprises	**4,455**	–
Total	**6,161**	14,257
Unlisted	**6,161**	14,257
Total	**6,161**	14,257

(vi) Debt securities

	31 December 2019	31 December 2018
Policy banks	**4,381**	4,094
Banks and non-bank financial institutions	**64,538**	27,646
Enterprises	**2**	–
Total	**68,921**	31,740
L Listed (Note)	**68,801**	31,279
Unlisted	**120**	461
Total	**68,921**	31,740

Note: Debt securities traded on the China Domestic Interbank Bond Market are classified as "Listed".

(vii) Funds and others

	31 December 2019	31 December 2018
Banks and non-bank financial institutions	**83,946**	62,156
Enterprises	**93,822**	37,114
Total	**177,768**	99,270
Listed	**67,357**	44,027
–of which in Hong Kong	**1,957**	1,143
Unlisted	**110,411**	55,243
Total	**177,768**	99,270

There was no significant limitation on the ability of the Group to dispose of financial assets measured at FVPL.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

26 FINANCIAL INVESTMENTS (CONTINUED)

(1) Analysed by measurement (continued)

(b) Financial assets measured at amortised cost

Analysed by type of issuers

	31 December 2019	31 December 2018
Government	3,024,534	2,623,081
Central banks	463	447
Policy banks	361,084	372,422
Banks and non-bank financial institutions	107,407	33,972
Enterprises	157,683	152,404
Special government bond	49,200	49,200
Subtotal	3,700,371	3,231,526
Accrued interest	52,627	47,823
Gross balances	3,752,998	3,279,349
Allowances for impairment losses		
–Stage 1	(8,932)	(5,171)
–Stage 2	(134)	(509)
–Stage 3	(3,636)	(1,155)
Subtotal	(12,702)	(6,835)
Net balances	3,740,296	3,272,514
Listed (Note)	3,553,837	3,121,678
–of which in Hong Kong	7,836	5,903
Unlisted	186,459	150,836
Total	3,740,296	3,272,514
Market value of listed bonds	3,629,398	3,124,407

Note: Debt securities traded on the China Domestic Interbank Bond Market are classified as "Listed".

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

26 FINANCIAL INVESTMENTS (CONTINUED)

(1) Analysed by measurement (continued)

(c) Financial assets measured at fair value through other comprehensive income

Analysed by nature

	Note	31 December 2019	31 December 2018
Debt securities	(i)	1,791,553	1,707,884
Equity instruments	(ii)	6,031	3,294
Total		1,797,584	1,711,178

Analysed by type of issuers

(i) Debt securities

	31 December 2019	31 December 2018
Government	1,103,764	1,015,579
Central banks	39,844	38,483
Policy banks	346,478	351,329
Banks and non-bank financial institutions	107,524	112,860
Enterprises	135,769	145,290
Accumulated change of fair value charged in other comprehensive income	33,000	19,900
Subtotal	1,766,379	1,683,441
Accrued interest	25,174	24,443
Total	1,791,553	1,707,884
Listed (Note)	1,741,972	1,681,048
–of which in Hong Kong	56,100	65,938
Unlisted	49,581	26,836
Total	1,791,553	1,707,884

Note: Debt securities traded on the China Domestic Interbank Bond Market are classified as "Listed".

(ii) Equity instruments

	31 December 2019		31 December 2018	
	Fair value	Dividend income during the year	Fair value	Dividend income during the year
Equity instruments	6,031	36	3,294	97

For the year ended 31 December 2019 and 2018, the Group neither sold any investments above nor transferred any cumulative profit or loss in the equity.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

26 FINANCIAL INVESTMENTS (CONTINUED)

(2) Movements of allowances for impairment losses

(a) *Financial assets measured at amortised cost*

	Note	2019			
		Stage 1	**Stage 2**	**Stage 3**	**Total**
As at 1 January 2019		**5,171**	**509**	**1,155**	**6,835**
Transfers:					
Transfers in/(out) to Stage 1		**–**	**–**	**–**	**–**
Transfers in/(out) to Stage 2		**(15)**	**15**	**–**	**–**
Transfers in/(out) to Stage 3		**(7)**	**(407)**	**414**	**–**
Newly originated or purchased financial assets		**5,299**	**3**	**–**	**5,302**
Financial assets derecognised during the year		**(1,440)**	**(20)**	**–**	**(1,460)**
Remeasurements	(i)	**(125)**	**20**	**2,052**	**1,947**
Foreign exchange and other movements		**49**	**14**	**15**	**78**
As at 31 December 2019		**8,932**	**134**	**3,636**	**12,702**

	Note	2018			
		Stage 1	Stage 2	Stage 3	Total
As at 1 January 2018		4,049	83	523	4,655
Transfers:					
Transfers in/(out) to Stage 1		–	–	–	–
Transfers in/(out) to Stage 2		(342)	342	–	–
Transfers in/(out) to Stage 3		(345)	–	345	–
Newly originated or purchased financial assets		1,166	–	–	1,166
Financial assets derecognised during the year		(691)	(64)	(27)	(782)
Remeasurements	(i)	359	77	252	688
Foreign exchange and other movements		975	71	62	1,108
As at 31 December 2018		5,171	509	1,155	6,835

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

26 FINANCIAL INVESTMENTS (CONTINUED)

(2) Movements of allowances for impairment losses (continued)

(b) Financial assets measured at fair value through other comprehensive income

		2019			
	Note	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2019		**2,090**	–	–	**2,090**
Transfers:					
Transfers in/(out) to Stage 1		–	–	–	–
Transfers in/(out) to Stage 2		–	–	–	–
Transfers in/(out) to Stage 3		–	–	–	–
Newly originated or purchased financial assets		**2,117**	–	–	**2,117**
Financial assets derecognised during the year		**(562)**	–	–	**(562)**
Remeasurements	(i)	**(58)**	–	–	**(58)**
Foreign exchange and other movements		**(7)**	–	–	**(7)**
As at 31 December 2019		**3,580**	–	–	**3,580**

		2018			
	Note	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2018		2,139	–	–	2,139
Transfers:					
Transfers in/(out) to Stage 1		–	–	–	–
Transfers in/(out) to Stage 2		–	–	–	–
Transfers in/(out) to Stage 3		–	–	–	–
Newly originated or purchased financial assets		501	–	–	501
Financial assets derecognised during the year		(182)	–	–	(182)
Remeasurements	(i)	(303)	–	–	(303)
Foreign exchange and other movements		(65)	–	–	(65)
As at 31 December 2018		2,090	–	–	2,090

(i) Remeasurements mainly comprise the impact of changes in probability of default, loss given default and exposure at default, credit loss changes due to stage-transfer.

As at 31 December 2019, the Group's financial investments measured at amortised cost with carrying amount of RMB7,774 million were impaired and classified as Stage 3, financial investments measured at amortised cost with carrying amount of RMB1,271 million were classified as Stage 2, and all financial investments measured at fair value through other comprehensive income and the remaining financial investments measured at amortised cost were classified as Stage 1.

For the year ended 31 December 2019, the increase in the Group's Stage 1 financial investments due to newly originated or purchased financial assets amounted to RMB1,402,711 million, the decrease in Stage 1 financial investments due to derecognition were amounted to RMB860,406 million, and there were no significant changes in the balances of financial investments classified as Stage 2 and 3. Both the amounts of financial investments transferred between stages and the amounts of financial investments with modifications of contractual cash flows that do not result in a derecognition were not significant.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

27 LONG-TERM EQUITY INVESTMENTS

(1) Investments in subsidiaries

(a) Investment cost

	Note	31 December 2019	31 December 2018
CCB Wealth Management Co., Ltd. ("CCB Wealth Management")	(i)	15,000	–
CCB Financial Asset Investment Co., Ltd. ("CCB Investment")		12,000	12,000
CCB Brasil Financial Holding – Investimentos e Participações Ltda		9,542	9,542
CCB Financial Leasing Co., Ltd. ("CCB Financial Leasing")		8,163	8,163
CCB Trust Co., Ltd. ("CCB Trust")	(ii)	7,429	3,409
CCB Life Insurance Co., Ltd. ("CCB Life")		3,902	3,902
China Construction Bank (London) Limited ("CCB London")		2,861	2,861
CCB Pension Management Co., Ltd. ("CCB Pension")		1,955	1,955
China Construction Bank (Europe) S.A. ("CCB Europe")		1,629	1,629
Sino-German Bausparkasse Co., Ltd. ("Sino-German Bausparkasse")		1,502	1,502
PT Bank China Construction Bank Indonesia Tbk ("CCB Indonesia")		1,340	1,340
China Construction Bank (Malaysia) Berhad ("CCB Malaysia")		1,334	1,334
China Construction Bank (New Zealand) Limited ("CCB New Zealand")		976	976
China Construction Bank (Russia) Limited Liability Company ("CCB Russia")		851	851
Golden Fountain Finance Limited ("Golden Fountain")		676	676
CCB Principal Asset Management Co., Ltd. ("CCB Principal Asset Management")		130	130
CCB International Group Holdings Limited ("CCBIG")		–	–
Total		69,290	50,270

(i) In May 2019, the Bank set up a wholly-owned subsidiary, CCB Wealth Management. As at 31 December 2019, the Bank held 100% of the total capital of CCB Wealth Management.

(ii) In December 2019, the Bank increased capital of CCB Trust by RMB4.02 billion based on shareholding percentage for the company to increase registered capital step by step. At present, part of the procedures are still in progress.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

27 LONG-TERM EQUITY INVESTMENTS (CONTINUED)

(1) Investments in subsidiaries (continued)

(b) Except for CCB Indonesia, the major subsidiaries of the Group are unlisted enterprises, details of the investments in subsidiaries are as follows:

Name of company	Principal place of business	Particulars of issued and paid-up capital	Kind of legal entity	Principal activities	% of ownership directly held by the Bank	% of ownership indirectly held by the Bank	% of voting rights held by the Bank	Method of investment
CCB Wealth Management	Shenzhen, the PRC	RMB15,000 million	Company with Limited Liability	Wealth Management	100%	–	100%	Establishment
CCB Investment	Beijing, the PRC	RMB12,000 million	Company with Limited Liability	Investment	100%	–	100%	Establishment
CCB Brasil Financial Holding – Investimentos e Participações Ltda.	Sao Paulo, Brasil	R$4,281 million	Company with Limited Liability	Investment	99.99%	0.01%	100%	Acquisition
CCB Financial Leasing	Beijing, the PRC	RMB8,000 million	Company with Limited Liability	Financial Leasing	100%	–	100%	Establishment
CCB Life	Shanghai, the PRC	RMB4,496 million	Company Limited by Shares	Insurance	51%	–	51%	Acquisition
CCB Trust	Anhui, the PRC	RMB2,467 million	Company with Limited Liability	Trust business	67%	–	67%	Acquisition
CCB London	London, United Kingdom	US$200 million RMB 1,500 million	Company with Limited Liability	Commercial Banking	100%	–	100%	Establishment
CCB Pension	Beijing, the PRC	RMB2,300 million	Company with Limited Liability	Pension Management	85%	–	85%	Establishment
CCB Europe	Luxembourg	EUR200 million	Company with Limited Liability	Commercial Banking	100%	–	100%	Establishment
Sino-German Bausparkasse	Tianjin, the PRC	RMB2,000 million	Company with Limited Liability	House savings	75.10%	–	75.10%	Establishment

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

27 LONG-TERM EQUITY INVESTMENTS (CONTINUED)

(1) Investments in subsidiaries (continued)

(b) Except for CCB Indonesia, the major subsidiaries of the Group are unlisted enterprises, details of the investments in subsidiaries are as follows: *(continued)*

Name of company	Principal place of business	Particulars of issued and paid-up capital	Kind of legal entity	Principal activities	% of ownership directly held by the Bank	% of ownership indirectly held by the Bank	% of voting rights held by the Bank	Method of investment
CCB Indonesia	Jakarta, Indonesia	IDR1,663,146 million	Company Limited by Shares	Commercial Banking	60%	–	60%	Acquisition
CCB Malaysia	Kuala Lumpur, Malaysia	MYR823 million	Company with Limited Liability	Commercial Banking	100%	–	100%	Establishment
CCB New Zealand	Auckland, New Zealand	NZD199 million	Company with Limited Liability	Commercial Banking	100%	–	100%	Establishment
CCB Russia	Moscow, Russia	RUB4,200 million	Company with Limited Liability	Commercial Banking	100%	–	100%	Establishment
Golden Fountain	British Virgin Islands	US$50,000	Company with Limited Liability	Investment	100%	–	100%	Acquisition
CCB Principal Asset Management	Beijing, the PRC	RMB200 million	Company with Limited Liability	Fund management services services	65%	–	65%	Establishment
CCBIG	Hong Kong, the PRC	HK$1	Company with Limited Liability	Investment	100%	–	100%	Establishment
CCB International (Holdings) Limited ("CCB International")	Hong Kong, the PRC	US$601 million	Company with Limited Liability	Investment	–	100%	100%	Acquisition
China Construction Bank (Asia) Corporation Limited ("CCB Asia")	Hong Kong, the PRC	HK$6,511 million RMB17,600 million	Company Limited by Shares	Commercial Banking	–	100%	100%	Acquisition
China Construction Bank (Brasil) Banco Múltiplo S/A. ("CCB Brasil")	Sao Paulo, Brasil	R$2,957 million	Company Limited by Shares	Commercial Banking	–	100%	100%	Acquisition

(c) As at 31 December 2019, the amount of the non-controlling interests of the subsidiaries was immaterial to the Group.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

27 LONG-TERM EQUITY INVESTMENTS (CONTINUED)

(2) Interests in associates and joint ventures

(a) The movements of the Group's interests in associates and joint ventures are as follows:

	2019	2018
As at 1 January	8,002	7,067
Acquisition during the year	4,978	1,352
Disposal during the year	(1,812)	(252)
Share of profits	249	140
Cash dividend receivable	(149)	(202)
Effect of exchange difference and others	85	(103)
As at 31 December	11,353	8,002

(b) Details of the interests in major associates and joint ventures are as follows:

Name of Company	Principal place of business	Particulars of issued and paid-up capital	Principal activities	% of ownership held	% of voting held	Total assets at year end	Total liabilities at year end	Revenue for the year	Net profit for the year
Guoxin Jianxin Equity Investment Fund (Chengdu) Partnership (Limited Partnership)	Chengdu, the PRC	RMB4,114 million	Equity investment	50.00%	50.00%	4,102	–	47	(13)
CCB Gold Investment Infrastructure Equity Investment Fund (Tianjin) Partnership (Limited Partnership)	Tianjin, the PRC	RMB3,500 million	Equity investment	48.57%	40.00%	3,563	–	63	63
Diamond String Limited	Hong Kong, the PRC	HK $10,000	Property investment	50.00%	50.00%	1,740	1,615	247	101
Guangdong SOE Reorganization Development Fund (Limited Partnership)	Zhuhai, the PRC	RMB720 million	Investment management and consultancy	49.67%	33.00%	731	–	20	14
Shaanxi Yanchang Petroleum Finance Limited	Xi 'an, the PRC	RMB3,500 million	Settlement, loans and financial leasing	8.00%	20.00%	17,669	12,930	626	358

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

28 STRUCTURED ENTITIES

(1) Unconsolidated structured entities

Unconsolidated structured entities of the Group include trust plans, asset management plans, funds, asset-backed securities and wealth management products held for investment purposes, and non-principal guaranteed wealth management products, trust plans and funds, etc. which are issued or established by the Group for providing wealth management services to customers and earning management fees, commission and custodian fees in return.

As at 31 December 2019 and 2018, the assets recognised for the Group's interests in the unconsolidated structured entities above included related investment and management fee, commission and custodian fee receivables accrued. The related carrying amount and the maximum exposure were as follows:

	31 December 2019	31 December 2018
Financial investments		
Financial assets measured at fair value through profit or loss	85,564	68,499
Financial assets measured at amortised cost	65,178	54,884
Financial assets measured at fair value through other comprehensive income	729	896
Interests in associates and joint ventures	6,906	4,196
Other assets	3,185	3,510
Total	161,562	131,985

For the year ended 31 December 2019 and 2018, the income from these unconsolidated structured entities held by the Group was as follows:

	2019	2018
Interest income	3,735	3,356
Fee and commission income	14,871	12,326
Net trading loss	138	–
Dividend income	669	309
Net gain arising from investment securities	2,773	1,932
Share of profits of associates and joint ventures	163	21
Total	22,349	17,944

As at 31 December 2019, the balance of the non-principal guaranteed wealth management products set up by the Group amounted to RMB1,968,483 million (as at 31 December 2018: RMB1,841,018 million) and the balance of trust plans, funds and asset management plans issued or established by the Group amounted to RMB2,989,536 million (as at 31 December 2018: RMB3,334,455 million). For the year ended 31 December 2019, there were financial assets held under resale agreements between the Group and non-principal guaranteed wealth management products mentioned above. These transactions were based on market prices or general commercial terms. The profit and loss from these transactions was not material to the Group.

(2) Consolidated structured entities

The consolidated structured entities of the Group are primarily the principal guaranteed wealth management products (Note 26(1)(a)(iv)) and certain asset management plans and trust plans, etc.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

29 FIXED ASSETS

	Bank premises	Construction in progress	Equipment	Aircraft and vessels	Others	Total
Cost/Deemed cost						
As at 1 January 2019	133,478	19,714	55,118	25,561	45,851	279,722
Additions	1,850	7,425	5,882	914	3,262	19,333
Transfer in/(out)	2,599	(8,938)	42	4,617	1,680	–
Other movements	(286)	(1,475)	(3,149)	(282)	(2,652)	(7,844)
As at 31 December 2019	137,641	16,726	57,893	30,810	48,141	291,211
Accumulated depreciation						
As at 1 January 2019	(38,948)	–	(37,362)	(3,408)	(30,006)	(109,724)
Charge for the year	(4,563)	–	(5,670)	(1,337)	(4,454)	(16,024)
Other movements	106	–	2,997	220	2,375	5,698
As at 31 December 2019	(43,405)	–	(40,035)	(4,525)	(32,085)	(120,050)
Allowances for impairment losses (Note 35)						
As at 1 January 2019	(406)	(1)	–	(14)	(3)	(424)
Charge for the year	–	–	–	(24)	(1)	(25)
Other movements	13	–	–	14	1	28
As at 31 December 2019	(393)	(1)	–	(24)	(3)	(421)
Net carrying value						
As at 1 January 2019	94,124	19,713	17,756	22,139	15,842	169,574
As at 31 December 2019	93,843	16,725	17,858	26,261	16,053	170,740

	Bank premises	Construction in progress	Equipment	Aircraft and vessels	Others	Total
Cost/Deemed cost						
As at 1 January 2018	122,870	26,646	54,989	22,855	43,636	270,996
Additions	1,205	6,651	5,104	2,502	2,476	17,938
Transfer in/(out)	9,745	(12,386)	82	–	2,559	–
Other movements	(342)	(1,197)	(5,057)	204	(2,820)	(9,212)
As at 31 December 2018	133,478	19,714	55,118	25,561	45,851	279,722
Accumulated depreciation						
As at 1 January 2018	(34,156)	–	(36,351)	(2,250)	(28,141)	(100,898)
Charge for the year	(4,964)	–	(5,904)	(1,271)	(4,579)	(16,718)
Other movements	172	–	4,893	113	2,714	7,892
As at 31 December 2018	(38,948)	–	(37,362)	(3,408)	(30,006)	(109,724)
Allowances for impairment losses (Note 35)						
As at 1 January 2018	(415)	–	–	(1)	(3)	(419)
Charge for the year	–	(1)	–	(13)	–	(14)
Other movements	9	–	–	–	–	9
As at 31 December 2018	(406)	(1)	–	(14)	(3)	(424)
Net carrying value						
As at 1 January 2018	88,299	26,646	18,638	20,604	15,492	169,679
As at 31 December 2018	94,124	19,713	17,756	22,139	15,842	169,574

Notes:

(1) Other movements include disposals of, retirements of and exchange differences on fixed assets.

(2) As at 31 December 2019, the ownership documentation for the Group's bank premises with a net carrying value of RMB15,688 million (as at 31 December 2018: RMB18,645 million) was being finalised. However, management is of the view that the aforesaid matter would not affect the rights of the Group to these assets nor have any significant impact on the business operation of the Group.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

30 LAND USE RIGHTS

	2019	2018
Cost/Deemed cost		
As at 1 January	21,860	21,495
Additions	989	444
Disposals	(56)	(79)
As at 31 December	22,793	21,860
Amortisation		
As at 1 January	(7,349)	(6,810)
Charge for the year	(594)	(565)
Disposals	24	26
As at 31 December	(7,919)	(7,349)
Allowances for impairment losses (Note 35)		
As at 1 January	(138)	(140)
Disposals	2	2
As at 31 December	(136)	(138)
Net carrying value		
As at 1 January	14,373	14,545
As at 31 December	14,738	14,373

The Group's right-of-use assets include the above fully prepaid land use rights and other right-of-use assets disclosed in note 34(2).

31 INTANGIBLE ASSETS

	Software	Others	Total
Cost/Deemed cost			
As at 1 January 2019	9,914	1,272	11,186
Additions	1,829	317	2,146
Disposals	(45)	(166)	(211)
As at 31 December 2019	11,698	1,423	13,121
Amortisation			
As at 1 January 2019	(7,154)	(402)	(7,556)
Charge for the year	(943)	(146)	(1,089)
Disposals	26	7	33
As at 31 December 2019	(8,071)	(541)	(8,612)
Allowances for impairment losses (Note 35)			
As at 1 January 2019	–	(8)	(8)
Additions	–	(1)	(1)
Disposals	–	2	2
As at 31 December 2019	–	(7)	(7)
Net carrying value			
As at 1 January 2019	2,760	862	3,622
As at 31 December 2019	3,627	875	4,502

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

31 INTANGIBLE ASSETS (CONTINUED)

	Software	Others	Total
Cost/Deemed cost			
As at 1 January 2018	8,424	1,211	9,635
Additions	1,519	214	1,733
Disposals	(29)	(153)	(182)
As at 31 December 2018	9,914	1,272	11,186
Amortisation			
As at 1 January 2018	(6,429)	(446)	(6,875)
Charge for the year	(754)	(57)	(811)
Disposals	29	101	130
As at 31 December 2018	(7,154)	(402)	(7,556)
Allowances for impairment losses (Note 35)			
As at 1 January 2018	–	(8)	(8)
Additions	–	–	–
Disposals	–	–	–
As at 31 December 2018	–	(8)	(8)
Net carrying value			
As at 1 January 2018	1,995	757	2,752
As at 31 December 2018	2,760	862	3,622

32 GOODWILL

(1) The goodwill is mainly attributable to the expected synergies arising from the acquisition of CCB Asia, CCB Brasil and CCB Indonesia. The movement of the goodwill is as follows:

	2019	2018
As at 1 January	**2,766**	2,751
Effect of exchange difference	**43**	15
As at 31 December	**2,809**	2,766

(2) Impairment test for CGU containing goodwill

The Group calculated the recoverable amount of CGU using cash flow projections based on financial forecasts approved by management. The average growth rate used by the Group is consistent with the forecasts included in industry reports. The discount rate used reflects specific risks relating to the relevant segments.

No impairment losses on goodwill of the Group were recognised as at 31 December 2019 (as at 31 December 2018: nil).

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

33 DEFERRED TAX

	31 December 2019	31 December 2018
Deferred tax assets	72,314	58,730
Deferred tax liabilities	(457)	(485)
Total	71,857	58,245

(1) Analysed by nature

	31 December 2019		31 December 2018	
	Deductible/ (taxable) temporary differences	Deferred tax assets/ (liabilities)	Deductible/ (taxable) temporary differences	Deferred tax assets/ (liabilities)
Deferred tax assets				
– Fair value adjustments	(35,948)	(9,167)	(25,347)	(6,464)
– Allowances for impairment losses	331,279	82,330	260,308	64,823
– Employee benefits	17,513	4,348	21,265	5,276
– Others	(21,871)	(5,197)	(20,363)	(4,905)
Total	290,973	72,314	235,863	58,730
Deferred tax liabilities				
– Fair value adjustments	(1,717)	(336)	(1,271)	(193)
– Others	(885)	(121)	(1,751)	(292)
Deferred tax assets	(2,602)	(457)	(3,022)	(485)

(2) Movements of deferred tax

	Fair value adjustments	Allowances for impairment losses	Employee benefits	Others	Total
As at 1 January 2019	(6,657)	64,823	5,276	(5,197)	58,245
Recognised in profit or loss	678	17,507	(928)	(121)	17,136
Recognised in other comprehensive income	(3,524)	–	–	–	(3,524)
As at 31 December 2019	(9,503)	82,330	4,348	(5,318)	71,857
As at 1 January 2018	5,332	46,906	5,814	(5,856)	52,196
Recognised in profit or loss	31	17,917	(538)	659	18,069
Recognised in other comprehensive income	(12,020)	–	–	–	(12,020)
As at 31 December 2018	(6,657)	64,823	5,276	(5,197)	58,245

The Group did not have significant unrecognised deferred tax as at the end of the reporting period.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

34 OTHER ASSETS

	Note	31 December 2019	31 December 2018
Repossessed assets	(1)		
– Buildings		**1,705**	1,721
– Land use rights		**156**	624
– Others		**719**	765
		2,580	3,110
Clearing and settlement accounts		**26,889**	18,517
Right-of-use assets	(2)	**24,460**	N/A
Fee and commission receivables		**19,963**	11,305
Policyholder account assets and accounts receivable of insurance business		**7,581**	6,318
Leasehold improvements		**2,992**	3,196
Deferred expenses		**1,336**	3,232
Others		**114,453**	87,633
Gross balance		**200,254**	133,311
Allowances for impairment losses (Note 35)			
– Repossessed assets		**(1,353)**	(1,165)
– Others		**(3,440)**	(2,772)
Net balance		**195,461**	129,374

(1) For the year ended 31 December 2019, the original cost of repossessed assets disposed of by the Group amounted to RMB649 million (for the year ended 31 December 2018: RMB550 million). The Group intends to dispose of repossessed assets through various methods including auction, competitive bidding and transfer.

(2) Right-of-use assets

	Bank premises	Others	Total
Cost			
As at 1 January 2019	**21,686**	**66**	**21,752**
Additions	**10,598**	**44**	**10,642**
Other movements	**(1,674)**	**(6)**	**(1,680)**
As at 31 December 2019	**30,610**	**104**	**30,714**
Accumulated depreciation			
As at 1 January 2019	**–**	**–**	**–**
Charge for the year	**(6,584)**	**(33)**	**(6,617)**
Other movements	**363**	**–**	**363**
As at 31 December 2019	**(6,221)**	**(33)**	**(6,254)**
Net carrying value			
As at 1 January 2019	**21,686**	**66**	**21,752**
As at 31 December 2019	**24,389**	**71**	**24,460**

The Group's right-of-use assets include the above assets and land use rights disclosed in note 30.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

35 MOVEMENTS OF ALLOWANCES FOR IMPAIRMENT LOSSES

	Note	2019 As at 1 January	2019 (Reversal)/ charge for the year	2019 Transfer (out)/in	2019 Write-off	2019 As at 31 December
Deposits with banks and non-bank financial institutions	21	**230**	**(12)**	**–**	**–**	**218**
Precious metals		**72**	**(34)**	**–**	**–**	**38**
Placements with banks and non-bank financial institutions	22	**114**	**114**	**(3)**	**–**	**225**
Financial assets held under resale agreements	24	**44**	**19**	**–**	**–**	**63**
Loans and advances to customers	25	**417,623**	**148,266**	**(34,653)**	**(49,078)**	**482,158**
Financial assets measured at amortised cost	26(2) (a)	**6,835**	**5,789**	**78**	**–**	**12,702**
Long-term equity investments	27	**41**	**–**	**(41)**	**–**	**–**
Fixed assets	29	**424**	**25**	**–**	**(28)**	**421**
Land use rights	30	**138**	**–**	**–**	**(2)**	**136**
Intangible assets	31	**8**	**1**	**–**	**(2)**	**7**
Other assets	34	**3,937**	**2,588**	**–**	**(1,732)**	**4,793**
Total		**429,466**	**156,756**	**(34,619)**	**(50,842)**	**500,761**

	Note	2018 As at 1 January	2018 Charge for the year	2018 Transfer (out)/in	2018 Write-off	2018 As at 31 December
Deposits with banks and non-bank financial institutions	21	129	107	–	(6)	230
Precious metals		41	31	–	–	72
Placements with banks and non-bank financial institutions	22	115	13	(14)	–	114
Financial assets held under resale agreements	24	15	29	–	–	44
Loans and advances to customers	25	343,802	142,595	(24,895)	(43,879)	417,623
Financial assets measured at amortised cost	26(2) (a)	4,655	1,072	1,108	–	6,835
Long-term equity investments	27	–	41	–	–	41
Fixed assets	29	419	14	–	(9)	424
Land use rights	30	140	–	–	(2)	138
Intangible assets	31	8	–	–	–	8
Other assets	34	4,022	1,509	–	(1,594)	3,937
Total		353,346	145,411	(23,801)	(45,490)	429,466

Transfer (out)/in includes exchange differences.

36 BORROWINGS FROM CENTRAL BANKS

	31 December 2019	31 December 2018
Mainland China	**487,204**	495,004
Overseas	**56,447**	50,441
Accrued interest	**5,782**	8,947
Total	**549,433**	554,392

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

37 DEPOSITS FROM BANKS AND NON-BANK FINANCIAL INSTITUTIONS

(1) Analysed by type of counterparties

	31 December 2019	31 December 2018
Banks	**167,383**	161,393
Non-bank financial institutions	**1,498,901**	1,257,303
Accrued interest	**6,414**	8,780
Total	**1,672,698**	1,427,476

(2) Analysed by geographical sectors

	31 December 2019	31 December 2018
Mainland China	**1,508,483**	1,277,120
Overseas	**157,801**	141,576
Accrued interest	**6,414**	8,780
Total	**1,672,698**	1,427,476

38 PLACEMENTS FROM BANKS AND NON-BANK FINANCIAL INSTITUTIONS

(1) Analysed by type of counterparties

	31 December 2019	31 December 2018
Banks	**476,574**	379,785
Non-bank financial institutions	**42,576**	38,259
Accrued interest	**2,403**	2,177
Total	**521,553**	420,221

(2) Analysed by geographical sectors

	31 December 2019	31 December 2018
Mainland China	**261,632**	130,596
Overseas	**257,518**	287,448
Accrued interest	**2,403**	2,177
Total	**521,553**	420,221

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

39 FINANCIAL LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2019	31 December 2018
Principal guaranteed wealth management products	178,770	351,369
Financial liabilities related to precious metals	31,065	37,832
Structured financial instruments	71,762	42,133
Total	281,597	431,334

The Group's financial liabilities measured at FVPL are those designated as measured at FVPL. As at the end of the reporting period, the difference between the fair value of these financial liabilities and the contractual payables at maturity is not material. The amounts of changes in the fair value of these financial liabilities that are attributable to changes in credit risk are considered not significant during the year presented and cumulatively as at 31 December 2019 and 2018.

40 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

Financial assets sold under repurchase agreements by underlying assets are shown as follows:

	31 December 2019	31 December 2018
Debt securities		
– Government bonds	103,380	20,473
– Debt securities issued by policy banks, banks and non-bank financial institutions	7,754	3,569
– Corporate bonds	40	29
Subtotal	111,174	24,071
Discounted bills	418	765
Others	2,920	5,774
Accrued interest	146	155
Total	114,658	30,765

41 DEPOSITS FROM CUSTOMERS

	31 December 2019	31 December 2018
Demand deposits		
– Corporate customers	6,001,053	5,922,676
– Personal customers	4,136,591	3,313,664
Subtotal	10,137,644	9,236,340
Time deposits (including call deposits)		
– Corporate customers	3,239,657	3,037,130
– Personal customers	4,781,485	4,657,959
Subtotal	8,021,142	7,695,089
Accrued interest	207,507	177,249
Total	18,366,293	17,108,678

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

41 DEPOSITS FROM CUSTOMERS (CONTINUED)

Deposits from customers include:

		31 December 2019	31 December 2018
(1)	Pledged deposits		
	– Deposits for acceptance	57,367	63,385
	– Deposits for guarantee	52,351	76,609
	– Deposits for letter of credit	11,593	19,260
	– Others	180,387	170,860
	Total	301,698	330,114
(2)	Outward remittance and remittance payables	19,805	15,341

42 ACCRUED STAFF COSTS

	Note	2019			
		As at 1 January	Increased	Decreased	As at 31 December
Salaries, bonuses, allowances and subsidies		23,773	70,382	(69,918)	24,237
Other social insurance and welfare		4,682	11,674	(12,224)	4,132
Housing funds		182	6,524	(6,351)	355
Union running costs and employee education costs		3,531	2,948	(1,496)	4,983
Post-employment benefits	(1)				
– Defined contribution plans		2,681	14,280	(12,628)	4,333
– Defined benefit plans		(158)	28	(233)	(363)
Early retirement benefits		1,520	40	(164)	1,396
Compensation to employees for termination of employment relationship		2	6	(6)	2
Total		36,213	105,882	(103,020)	39,075

	Note	2018			
		As at 1 January	Increased	Decreased	As at 31 December
Salaries, bonuses, allowances and subsidies		23,628	66,788	(66,643)	23,773
Other social insurance and welfare		3,973	11,187	(10,478)	4,682
Housing funds		163	6,390	(6,371)	182
Union running costs and employee education costs		2,738	2,820	(2,027)	3,531
Post-employment benefits	(1)				
– Defined contribution plans		893	14,850	(13,062)	2,681
– Defined benefit plans		(440)	326	(44)	(158)
Early retirement benefits		1,674	52	(206)	1,520
Compensation to employees for termination of employment relationship		3	2	(3)	2
Total		32,632	102,415	(98,834)	36,213

The Group had no overdue balance of accrued staff costs as at the end of the reporting period.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

42 ACCRUED STAFF COSTS (CONTINUED)

(1) Post-employment benefits

(a) Defined contribution plans

	2019			
	As at 1 January	**Increased**	**Decreased**	**As at 31 December**
Basic pension insurance	**761**	**8,994**	**(9,147)**	**608**
Unemployment insurance	**39**	**299**	**(296)**	**42**
Annuity contribution	**1,881**	**4,987**	**(3,185)**	**3,683**
Total	**2,681**	**14,280**	**(12,628)**	**4,333**

	2018			
	As at 1 January	Increased	Decreased	As at 31 December
Basic pension insurance	589	9,896	(9,724)	761
Unemployment insurance	37	298	(296)	39
Annuity contribution	267	4,656	(3,042)	1,881
Total	893	14,850	(13,062)	2,681

(b) Defined benefit plans – Supplementary retirement benefits

The Group's obligations in respect of the supplementary retirement benefits as at the end of the reporting period were calculated using the projected unit credit method and reviewed by an external independent actuary, Towers Watson Management Consulting (Shenzhen) Co., Ltd.

	Present value of defined benefit plan obligations		**Fair value of plan assets**		**Net liabilities/(assets) of defined benefit plans**	
	2019	2018	**2019**	2018	**2019**	2018
As at 1 January	**6,139**	6,197	**6,297**	6,637	**(158)**	(440)
Cost of the net defined benefit liability in profit or loss						
– Interest costs	**188**	221	**194**	235	**(6)**	(14)
Remeasurements of the defined benefit liability in other comprehensive income						
– Actuarial losses	**28**	326	**–**	–	**28**	326
– Returns on plan assets	**–**	–	**227**	30	**(227)**	(30)
Other changes						
– Benefits paid	**(579)**	(605)	**(579)**	(605)	**–**	–
As at 31 December	**5,776**	6,139	**6,139**	6,297	**(363)**	(158)

Interest cost was recognised in operating expenses.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

42 ACCRUED STAFF COSTS (CONTINUED)

(1) Post-employment benefits (continued)

(b) Defined benefit plans – Supplementary retirement benefits (continued)

(i) Principal actuarial assumptions of the Group as at the end of the reporting period were as follows:

	31 December 2019	31 December 2018
Discount rate	**3.25%**	3.25%
Health care cost increase rate	**7.00%**	7.00%
Average expected future lifetime of eligible employees	**11.0 years**	12.0 years

Mortality assumptions are based on China Life Insurance Mortality Table (2010-2013). The Table published historical statistics in China.

(ii) The sensitivity of the present value of supplementary retirement benefit obligations to changes in the weighted principal assumption is:

	Impact on present value of supplementary retirement benefit obligations	
	Increase in assumption by 0.25%	Decrease in assumption by 0.25%
Discount rate	**(113)**	**117**
Health care cost increase rate	**44**	**(43)**

(iii) As at 31 December 2019, the weighted average duration of supplementary retirement benefit obligations of the Group was 8.0 years (as at 31 December 2018: 8.2 years).

(iv) Plan assets of the Group are as follows:

	31 December 2019	31 December 2018
Cash and cash equivalents	**198**	232
Equity instruments	**595**	261
Debt instruments	**5,239**	5,675
Others	**107**	129
Total	**6,139**	6,297

43 TAXES PAYABLE

	31 December 2019	31 December 2018
Income tax	**75,388**	66,670
Value added tax	**8,783**	8,986
Others	**2,464**	2,227
Total	**86,635**	77,883

44 PROVISIONS

	31 December 2019	31 December 2018
Expected credit losses on off-balance sheet business	**35,479**	31,224
Litigation provisions and others	**7,464**	6,704
Total	**42,943**	37,928

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

44 PROVISIONS (CONTINUED)

Movements of the provision – expected credit losses on off-balance sheet business

		2019			
	Note	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2019		**22,344**	**5,971**	**2,909**	**31,224**
Transfers:					
Transfers in/(out) to Stage 1		**675**	**(675)**	**–**	**–**
Transfers in/(out) to Stage 2		**(199)**	**206**	**(7)**	**–**
Transfers in/(out) to Stage 3		**(172)**	**(21)**	**193**	**–**
Newly originated		**18,072**	**–**	**–**	**18,072**
Matured		**(14,106)**	**(3,373)**	**(1,891)**	**(19,370)**
Remeasurements	(1)	**(1,841)**	**2,293**	**5,101**	**5,553**
As at 31 December 2019		**24,773**	**4,401**	**6,305**	**35,479**

		2018			
	Note	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2018		19,523	4,228	1,984	25,735
Transfers:					
Transfers in/(out) to Stage 1		260	(260)	–	–
Transfers in/(out) to Stage 2		(147)	147	–	–
Transfers in/(out) to Stage 3		(3)	(215)	218	–
Newly originated		18,361	–	–	18,361
Matured		(11,770)	(2,009)	(215)	(13,994)
Remeasurements	(1)	(3,880)	4,080	922	1,122
As at 31 December 2018		22,344	5,971	2,909	31,224

(1) Remeasurements comprise the impact of changes in PD, LGD or EAD; changes in model assumptions and methodology; credit loss changes due to stage-transfer; and the impact of exchange rate changes.

45 DEBT SECURITIES ISSUED

	Note	**31 December 2019**	31 December 2018
Certificates of deposit issued	(1)	**709,383**	371,583
Bonds issued	(2)	**127,863**	111,447
Subordinated bonds issued	(3)	**81,694**	145,169
Eligible Tier 2 capital bonds issued	(4)	**153,703**	142,681
Accrued interest		**3,932**	4,905
Total		**1,076,575**	775,785

(1) Certificates of deposit issued were mainly issued by head office, overseas branches, CCB New Zealand, and Sino-German Bausparkasse.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

45 DEBT SECURITIES ISSUED (CONTINUED)

(2) Bonds issued

Issue date	Maturity date	Interest rate per annum	Issue place	Currency	31 December 2019	31 December 2018
28/05/2014	28/05/2019	1.375%	Switzerland	CHF	–	2,093
02/07/2014	02/07/2019	3.25%	Hong Kong	USD	–	4,123
05/09/2014	05/09/2019	3.75%	Taiwan	RMB	–	600
05/09/2014	05/09/2021	4.00%	Taiwan	RMB	600	600
18/11/2014	18/11/2019	3.75%	Taiwan	RMB	–	1,000
18/11/2014	18/11/2021	3.95%	Taiwan	RMB	1,000	1,000
18/11/2014	18/11/2024	4.08%	Taiwan	RMB	600	600
20/01/2015	20/01/2020	3.125%	Hong Kong	USD	4,873	4,810
11/02/2015	11/02/2020	1.50%	Luxembourg	EUR	3,901	3,929
18/06/2015	18/06/2019	4.30%	Auckland	NZD	–	7
18/06/2015	18/06/2020	3-month New Zealand benchmark interest rate+1.2%	Auckland	NZD	117	115
28/07/2015	28/07/2020	3.25%	Hong Kong	USD	3,481	3,437
10/09/2015	10/09/2019	3.945%	Auckland	NZD	–	57
29/12/2015	27/01/2020	3.80%	Auckland	NZD	94	92
30/03/2016	30/03/2026	4.08%	Mainland China	RMB	3,500	3,500
16/05/2016	16/05/2019	3.10%	Auckland	NZD	–	46
31/05/2016	31/05/2019	2.38%	Hong Kong	USD	–	1,513
31/05/2016	31/05/2021	2.75%	Hong Kong	USD	2,088	2,075
18/08/2016	18/09/2020	2.95%	Auckland	NZD	482	476
18/10/2016	18/10/2020	3.05%	Auckland	NZD	7	7
21/10/2016	21/10/2021	2.25%	Hong Kong	USD	4,331	4,483
09/11/2016	09/11/2019	3.05%	Mainland China	RMB	–	3,200
09/11/2016	09/11/2021	3.05%	Mainland China	RMB	800	800
22/12/2016	22/12/2019	3.35%	Auckland	NZD	–	46
17/02/2017	17/02/2020	0.63%	Luxembourg	EUR	3,903	3,928
31/05/2017	29/05/2020	3M LIBOR+0.77%	Hong Kong	USD	8,353	8,246
13/06/2017	13/06/2022	2.75%	Hong Kong	USD	4,177	4,123
27/09/2017	27/09/2019	2.37%	Hong Kong	USD	–	515
25/10/2017	25/10/2022	3.15%	Hong Kong	USD	696	687
25/10/2017	27/10/2020	2.20%	Hong Kong	USD	84	82
26/10/2017	26/10/2020	2.08%	Singapore	SGD	2,586	2,522
09/11/2017	09/11/2022	3.93%	Auckland	NZD	702	693
04/12/2017	04/12/2020	2.29%	Hong Kong	USD	5,569	5,497
04/12/2017	04/12/2020	2.75%	Hong Kong	USD	3,481	3,436
04/12/2017	04/12/2022	3.00%	Hong Kong	USD	2,784	2,749
13/03/2018	13/03/2021	3.20%	Auckland	NZD	47	46
17/04/2018	17/04/2019	2.97%	Hong Kong	USD	–	69
17/04/2018	26/03/2021	3M LIBOR+0.75%	Hong Kong	USD	557	550
18/04/2018	18/04/2021	4.88%	Mainland China	RMB	6,000	6,000
19/04/2018	26/04/2019	3M LIBOR+0.45%	Hong Kong	USD	–	275
30/04/2018	30/04/2021	3M LIBOR+0.75%	Hong Kong	USD	139	137
04/05/2018	04/05/2021	3M LIBOR+0.80%	Hong Kong	USD	174	172
08/06/2018	08/06/2021	3M LIBOR+0.73%	Hong Kong	USD	6,265	6,184
08/06/2018	08/06/2023	3M LIBOR+0.83%	Hong Kong	USD	4,177	4,123
19/06/2018	19/06/2023	4.01%	Auckland	NZD	468	462
12/07/2018	12/07/2023	3M LIBOR+1.25%	Hong Kong	USD	2,785	2,749
20/07/2018	20/07/2021	4.48%	Mainland China	RMB	3,000	3,000
21/08/2018	19/06/2023	4.005%	Auckland	NZD	164	162
23/08/2018	23/08/2021	4.25%	Mainland China	RMB	2,500	2,500
21/09/2018	21/09/2020	2.643%	Singapore	SGD	1,552	1,513
24/09/2018	24/09/2021	3M LIBOR+0.75%	Hong Kong	USD	6,961	6,871
24/09/2018	24/09/2021	3M EURIBOR+0.60%	Luxembourg	EUR	3,903	3,924
20/12/2018	20/12/2021	3M LIBOR+0.75%	Auckland	USD	696	688
24/12/2018	24/12/2020	3M LIBOR+0.70%	Hong Kong	USD	1,114	1,099

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

45 DEBT SECURITIES ISSUED (CONTINUED)

(2) Bonds issued (continued)

Issue date	Maturity date	Interest rate per annum	Issue place	Currency	31 December 2019	31 December 2018
16/05/2019	16/05/2024	3.50%	Hong Kong	USD	**2,788**	–
16/05/2019	16/05/2029	3.88%	Hong Kong	USD	**1,392**	–
26/06/2019	24/06/2022	0.21%	Japan	JPY	**1,281**	–
26/08/2019	26/08/2022	3.30%	Mainland China	RMB	**6,300**	–
26/08/2019	26/08/2024	3.40%	Mainland China	RMB	**3,000**	–
11/09/2019	16/05/2024	3.50%	Hong Kong	USD	**2,088**	–
12/09/2019	12/08/2022	3M LIBOR+0.68%	Auckland	USD	**696**	–
22/10/2019	22/10/2022	0.05%	Luxembourg	EUR	**3,903**	–
24/10/2019	24/10/2024	3M LIBOR+0.77%	Hong Kong	USD	**4,873**	–
22/11/2019	22/11/2024	2.393%	Auckland	NZD	**398**	–
10/12/2019	10/11/2022	3-month New Zealand benchmark interest rate +0.88%	Auckland	NZD	**421**	–
20/12/2019	20/06/2022	3M LIBOR +0.63%	Luxembourg	USD	**2,087**	–
Total nominal value					**127,938**	111,611
Less: unamortised issuance costs					**(75)**	(164)
Carrying value					**127,863**	111,447

(3) Subordinated bonds issued

The carrying value of the Group's subordinated bonds issued upon the approval of the PBOC, the CBIRC, the HKMA and Brasil Central Bank is as follows:

Issue date	Maturity date	Interest rate per annum	Currency	Note	31 December 2019	31 December 2018
24/02/2009	26/02/2024	4.00%	RMB	(a)	**–**	28,000
07/08/2009	11/08/2024	4.04%	RMB	(b)	**–**	10,000
03/11/2009	04/11/2019	Benchmark rate released by Brasil Central Bank	BRL	(c)	**–**	354
18/12/2009	22/12/2024	4.80%	RMB	(d)	**–**	20,000
27/04/2010	27/04/2020	8.50%	USD	(c)	**1,720**	1,728
03/11/2011	07/11/2026	5.70%	RMB	(e)	**40,000**	40,000
20/11/2012	22/11/2027	4.99%	RMB	(f)	**40,000**	40,000
20/08/2014	20/08/2024	4.25%	USD	(g)	**–**	5,154
Total nominal value					**81,720**	145,236
Less: Unamortised issuance cost					**(26)**	(67)
Carrying value					**81,694**	145,169

(a) The Group has chosen to exercise the option to redeem all the bonds on 26 February 2019.

(b) The Group has chosen to exercise the option to redeem all the bonds on 11 August 2019.

(c) The subordinated bonds were issued by CCB Brasil.

(d) The Group has chosen to exercise the option to redeem all the bonds on 22 December 2019.

(e) The Group has an option to redeem the bonds on 7 November 2021, subject to approval from the relevant authority.

(f) The Group has an option to redeem the bonds on 22 November 2022, subject to approval from the relevant authority.

(g) The Group has chosen to exercise the option to redeem all the bonds on 20 August 2019.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

45 DEBT SECURITIES ISSUED (CONTINUED)

(4) Eligible Tier 2 capital bonds issued

Issue date	Maturity date	Interest rate per annum	Currency	Note	31 December 2019	31 December 2018
15/08/2014	18/08/2029	5.98%	RMB	(a)	**20,000**	20,000
12/11/2014	12/11/2024	4.90%	RMB	(b)	**–**	2,000
13/05/2015	13/05/2025	3.88%	USD	(c)	**13,923**	13,746
18/12/2015	21/12/2025	4.00%	RMB	(d)	**24,000**	24,000
25/09/2018	24/09/2028	4.86%	RMB	(e)	**43,000**	43,000
29/10/2018	28/10/2028	4.70%	RMB	(f)	**40,000**	40,000
27/02/2019	27/02/2029	4.25%	USD	(g)	**12,879**	–
Total nominal value					**153,802**	142,746
Less: Unamortised issuance cost					**(99)**	(65)
Carrying value as at year end					**153,703**	142,681

(a) The Group has an option to redeem the bonds on 18 August 2024, subject to approval from the relevant authority. These eligible Tier 2 capital bonds have the write-down feature of a Tier 2 capital instrument, which allows the Bank to write down the entire principal of the bonds when a regulatory triggering event occurs. Any accumulated unpaid interest will not be paid either.

(b) The Group has chosen to exercise the option to redeem all the bonds on 12 November 2019.

(c) The Group has an option to redeem the bonds on 13 May 2020, subject to approval from the relevant authority. If they are not redeemed by the Group, the interest rate will be reset on 13 May 2020 and increase by 2.425% on the basis of five years USD treasury benchmark applicable on the interest reset date. These eligible Tier 2 capital bonds have the write-down feature of a Tier 2 capital instrument, which allows the Bank to write down the entire principal of the bonds when a regulatory triggering event occurs. Any accumulated unpaid interest will not be paid either.

(d) The Group has an option to redeem the bonds on 21 December 2020, subject to approval from the relevant authority. These eligible Tier 2 capital bonds have the write-down feature of a Tier 2 capital instrument, which allows the Bank to write down the entire principal of the bonds when a regulatory triggering event occurs. Any accumulated unpaid interest will not be paid either.

(e) The Group has an option to redeem the bonds on 25 September 2023, subject to approval from the relevant authority. These eligible Tier 2 capital bonds have the write-down feature of a Tier 2 capital instrument, which allows the Bank to write down the entire principal of the bonds when a regulatory triggering event occurs. Any accumulated unpaid interest will not be paid either.

(f) The Group has an option to redeem the bonds on 29 October 2023, subject to approval from the relevant authority. These eligible Tier 2 capital bonds have the write-down feature of a Tier 2 capital instrument, which allows the Bank to write down the entire principal of the bonds when a regulatory triggering event occurs. Any accumulated unpaid interest will not be paid either.

(g) The Group has an option to redeem the bonds on 27 February 2024, subject to approval from the relevant authority. If they are not redeemed by the Group, the interest rate will be reset on 27 February 2024 and increase by 1.88% on the basis of five years USD treasury benchmark applicable on the interest reset date. These eligible Tier 2 capital bonds have the write-down feature of a Tier 2 capital instrument, which allows the Bank to write down the entire principal of the bonds when a regulatory triggering event occurs. Any accumulated unpaid interest will not be paid either.

46 OTHER LIABILITIES

	Note	31 December 2019	31 December 2018
Insurance related liabilities		**147,121**	116,463
Payment and collection clearance accounts		**41,265**	21,696
Clearing and settlement accounts		**34,275**	7,630
Lease liabilities	(1)	**22,123**	N/A
Deferred income		**20,408**	14,548
Capital expenditure payable		**9,717**	9,248
Cash pledged and rental income received in advance		**9,007**	9,486
Dormant accounts		**6,871**	6,973
Accrued expenses		**4,921**	3,728
Others		**119,727**	91,642
Total		**415,435**	281,414

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

46 OTHER LIABILITIES (CONTINUED)

(1) Lease liabilities

Maturity analysis – undiscounted contractual cash flows

	31 December 2019	31 December 2018
Within one year	**6,559**	N/A
Between one year and five years	**15,339**	N/A
More than five years	**3,722**	N/A
Total undiscounted cash flows	**25,620**	N/A
Lease liabilities	**22,123**	N/A

47 SHARE CAPITAL

	31 December 2019	31 December 2018
Listed in Hong Kong (H shares)	**240,417**	240,417
Listed in Mainland China (A shares)	**9,594**	9,594
Total	**250,011**	250,011

All H and A shares are ordinary shares, have a par value of RMB1 per share and rank pari passu with the same rights and benefits.

48 OTHER EQUITY INSTRUMENTS

(1) Preference shares

(a) Preference shares outstanding as at the end of the reporting period

Financial instrument outstanding	Issuance date	Classification	Initial interest rate	Issuance price	Quantity (million shares)	Total amount Currency	Original currency	(RMB)	Maturity date	Redemption/ conversion conditions
2015 Offshore Preference Shares	16 December 2015	Equity instruments	4.65%	$20 per share	152.5	USD	3,050	19,711	No maturity date	None
2017 Domestic Preference Shares	21 December 2017	Equity instruments	4.75%	RMB100 per share	600	RMB	60,000	60,000	No maturity date	None
Less: Issuance fee								(75)		
Carrying amount								79,636		

(b) The key terms

(i) Offshore Preference Shares

Dividend

The initial annual dividend rate is 4.65% and is subsequently subject to reset per agreement, but in no case shall exceed 20.4850%. The dividend is measured and paid in dollars. After such dividend being paid at the agreed dividend payout ratio, the holders of the above offshore preference shares shall not be entitled to share in the distribution of the remaining profits of the Bank together with the holders of the ordinary shares. The dividends for offshore preference shares are non-cumulative. The Bank shall be entitled to cancel any dividend for the offshore preference shares, and such cancellation shall not be deemed a default. However, until the Bank fully pays the dividends for the current dividend period, the Bank shall not make any dividend distribution to ordinary shareholders.

Redemption

Subject to receiving the prior approval of CBIRC and satisfaction of the redemption conditions precedent, all or only some of the Offshore Preference Shares may be redeemed at the discretion of the Bank on 16 December 2020 or on any dividend payment date thereafter at the redemption price which is equal to the issue price plus dividends payable but not yet distributed in the current period.

48 OTHER EQUITY INSTRUMENTS (CONTINUED)

(1) Preference shares (continued)

(b) The key terms (continued)

(i) Offshore Preference Shares (continued)

Compulsory conversion of preference shares

When an Additional Tier 1 Capital Instrument Trigger Event occurs, that is when Core Tier 1 Capital Adequacy Ratio of the Bank falls to 5.125% (or below), the Bank shall (without the need for the consent of offshore preference shareholders) convert all or only some of the preference shares in issue into such number of H shares which will be sufficient to restore the Bank's Core Tier 1 Capital Adequacy Ratio to above 5.125% according to the contract; when a Tier 2 Capital Instrument Trigger Event occurs, the Bank shall (without the need for the consent of offshore preference shareholders) convert all of the offshore preference shares in issue into such number of H shares according to contract. Tier 2 Capital Instrument Trigger Event is defined as the earlier of: (i) the CBIRC having decided that without a conversion or write-off the Bank would become non-viable; and (ii) the relevant authorities having decided that a public sector injection of capital or equivalent support is necessary, without which the Bank would become non-viable. Once a preference share has been converted, it will not be restored in any circumstances. When the compulsory conversion of offshore preference shares occurs, the Bank shall report to the CBIRC for approval and decision.

(ii) Domestic Preference Shares

Dividend

The nominal dividend rate of the Domestic Preference Shares is adjusted on a phase-by-phase basis. It is the sum of the benchmark rate plus the fixed interest spread, and is adjusted every five years. The fixed interest spread is determined as the nominal dividend rate set for issuance less the benchmark rate at the time of issuance, and will not be subject to future adjustments. The dividends for domestic preference shares are non-cumulative. The Bank has the right to cancel dividend distribution on Domestic Preference Shares, and the cancellation does not constitute a default event. The Bank may, at its discretion, use the cancelled dividends to repay other indebtedness due and payable. If the Bank cancels all or part of the dividends on the Domestic Preference Shares, the Bank shall make no profit distribution to shareholders holding ordinary shares from the day after the cancellation proposal is adopted by the General Shareholders' Meeting to the day when full distribution of dividends is resumed. The cancellation of dividends on Domestic Preference Shares will not constitute other restrictions to the Bank except for the distribution of dividends to ordinary shareholders.

The dividends on the Domestic Preference Shares are distributed annually.

Redemption

The Bank may, subject to CBIRC approval and compliance with the redemption preconditions, redeem in whole or in part of the Domestic Preference Shares after at least five years from the completion date of the issuance (i.e., 27 December 2017). The redemption period begins from the first day of the redemption and ends on the day when all Domestic Preference Shares are redeemed or converted. The redemption price of the Domestic Preference Shares shall be their issue price plus any dividends accrued but unpaid in the current period.

Compulsory conversion of preference shares

If an Additional Tier 1 Capital Instrument Trigger Event occurs, i.e., the Core Tier 1 Capital Adequacy Ratio of the Bank has fallen to 5.125% or below, the Bank has the right to, without prior consent from the shareholders of the Domestic Preference Shares and as agreed, convert all or part of the Domestic Preference Shares issued and outstanding to ordinary A shares, to restore the Bank's Core Tier 1 Capital Adequacy Ratio to above the trigger point (i.e., 5.125%). In the case of partial conversion, the Domestic Preference Shares shall be subject to the same proportion and conditions of conversion. Once Domestic Preference Shares are converted to ordinary A shares, they shall not be converted back to preference shares under any circumstances.

When a Tier 2 Capital Instrument Trigger Event occurs, the Bank has the right to, without prior consent of the shareholders of the Domestic Preference Shares and as agreed, convert all the Domestic Preference Shares issued and outstanding to ordinary A shares. Once Domestic Preference Shares are converted to ordinary A shares, they shall not be converted back to preference shares under any circumstances. A Tier 2 Capital Instrument Trigger Event is the earlier of the following two scenarios: (i) the CBIRC having decided that without a conversion or write-off of the Bank's capital, the Bank would become non-viable; and (ii) the relevant authorities having decided that a public sector injection of capital or equivalent support is necessary, without which the Bank would become non-viable. When the compulsory conversion of preference shares occurs, the Bank shall report to the CBIRC for approval and decision, and perform the announcement obligation according to the regulations of the Securities Law and China Securities Regulatory Commission ("CSRC").

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

48 OTHER EQUITY INSTRUMENTS (CONTINUED)

(1) Preference shares (continued)

(b) The key terms (continued)

(ii) Domestic Preference Shares (continued)

Compulsory conversion of preference shares (continued)

The Bank classifies preference shares issued as an equity instrument and presented as an equity item on the statement of financial position. Capital raised from the issuance of the above preference shares, after deduction of the expenses relating to the issuance, was wholly used to replenish the Bank's additional tier 1 capital and to increase its capital adequacy ratios.

(c) Changes in preference shares outstanding

	1 January 2019		Increase/(Decrease)		31 December 2019	
Financial instrument outstanding	Amount (million shares)	Carrying value	Amount (million shares)	Carrying value	Amount (million shares)	Carrying value
2015 Offshore Preference Shares	152.5	19,659	–	–	152.5	19,659
2017 Domestic Preference Shares	600	59,977	–	–	600	59,977
Total	752.5	79,636	–	–	752.5	79,636

(2) Perpetual bonds

(a) Perpetual bonds outstanding at the end of the year

Financial instrument outstanding	Issuance date	Classification	Initial interest rate	Issuance price	Quantity (million pieces)	Currency	Total Amount	Maturity date	Redemption/ write-down conditions
Undated Additional Tier 1 Capital Bonds	13 November 2019	Equity instruments	4.22%	100 per unit	400	RMB	40,000	No maturity date	None
Less: Issuance fee							(9)		
Carrying amount							39,991		

(b) The key terms

Distribution rate and distribution payment

The distribution rate of the Undated Additional Tier 1 Capital Bonds (or "the Bonds") will be adjusted at defined intervals, with a distribution rate adjustment period every 5 years since the payment settlement date. In any distribution rate adjusted period, the distribution payments on the Bonds will be made at a prescribed fixed distribution rate. The distribution rate is determined by a benchmark rate plus a fixed spread.

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 holders of the Bonds. The Bank may, at its sole discretion, use the proceeds from the cancelled distributions to meet other obligations as they fall due. In the case of cancelling any distributions on the Bonds, no matter in whole or in part, the Bank shall not make any distribution to the ordinary shareholders from the next day following the resolution being approved by the general shareholders meeting, until its decision to resume the distribution payments in whole to the holders of the Bonds. The distributions on the Bonds are non-cumulative, namely, upon cancellation, any amount of distribution unpaid to the holders of the Bonds in the applicable period will not accumulate or compound to the subsequent distribution period thereafter.

The distributions of the Bonds will be payable annually.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

48 OTHER EQUITY INSTRUMENTS (CONTINUED)

(2) Perpetual bonds (continued)

(b) The key terms (continued)

Conditional redemption rights of the Bank

From the fifth anniversary since the issuance of the Bonds, the Bank may redeem whole or part of the Bonds on each distribution payment date (including the fifth distribution payment date since the issuance). If, after the issuance, the 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 Bonds.

The exercise of the Bank's redemption right shall be subject to the consent of the CBIRC and the satisfaction of the following preconditions: (i)the Bank shall use capital instruments of the same or better quality to replace the instruments to be redeemed, and such replacement shall only be carried out at conditions which are sustainable for the income capacity; (ii)or the capital position of the Bank after the redemption right is exercised will remain well above the regulatory capital requirements stipulated by the CBIRC.

Write-down/write-off clauses

Upon the occurrence of an 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 CBIRC but without the need for the consent of the holders of the Bonds, to write down whole or part of the aggregate amount of the 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 Bonds then issued and outstanding shall be written down on a pro rata basis, according to the outstanding amount, with all other Additional Tier 1 Capital instruments with equivalent write-down clauses of the Bank.

Upon the occurrence of a Tier 2 Capital Trigger Event, the Bank has the right to write off in whole, without the need for the consent of the holders of the Bonds, the aggregate amount of the Bonds then issued and outstanding. A Tier 2 Capital Trigger Event refers to the earlier of the following events: (i)the CBIRC having decided that the Bank would become non-viable without a write-off; (ii)any relevant authority having decided that a public sector injection of capital or equivalent support is necessary, without which the Bank would become non-viable. Upon write-off of the bonds, such bonds are to be permanently cancelled and will not be restored under any circumstances.

Subordination

The claims in respect of the Bonds will be subordinated to the claims of depositors, general creditors, and subordinated indebtedness that ranks senior to the Bonds; will rank in priority to all classes of shares held by the Bank's shareholders and rank pari passu with the claims in respect of any other additional tier 1 capital instruments of the Bank that rank pari passu with the Bonds.

The Bank classifies the Bonds issued as an equity instrument and presented as an equity item on the statement of financial position. Capital raised from the issuance of the Bonds, after deduction of the expenses relating to the issuance, was wholly used to replenish the Bank's additional tier 1 capital and to increase its capital adequacy ratios.

(c) Changes in perpetual bonds outstanding

Financial instrument outstanding	1 January 2019 Amount (million pieces)	1 January 2019 Carrying value	Increase/(Decrease) Amount (million pieces)	Increase/(Decrease) Carrying value	31 December 2019 Amount (million pieces)	31 December 2019 Carrying value
Undated Additional Tier 1 Capital Bonds	–	–	400	39,991	400	39,991
Total	–	–	400	39,991	400	39,991

(3) Interests attributable to the holders of equity instruments

Items	31 December 2019	31 December 2018
1. Total equity attributable to equity holders of the Bank	2,216,257	1,976,463
(1) Equity attributable to ordinary equity holders of the Bank	2,096,630	1,896,827
(2) Equity attributable to other equity holders of the Bank	119,627	79,636
Of which: net profit	3,962	3,936
dividends received	3,962	3,936
2. Total equity attributable to non-controlling interests	18,870	15,131
(1) Equity attributable to non-controlling interests of ordinary shares	15,417	11,678
(2) Equity attributable to non-controlling interests of other equity instruments	3,453	3,453

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

49 CAPITAL RESERVE

	31 December 2019	31 December 2018
Share premium	**134,537**	134,537

50 OTHER COMPREHENSIVE INCOME

	Other comprehensive income of the statement of financial position			Other comprehensive income of the statement of comprehensive income				
				2019				
	1 January 2019	Net-of-tax amount attributable to equity shareholders of the Bank	31 December 2019	The amount before income taxes	Less: Reclassification adjustments included in profit or loss due to disposals	Less: Income taxes	Net-of-tax amount attributable to equity shareholders of the Bank	Net-of-tax amount attributable to non-controlling interests
(1) Other comprehensive income that will not be reclassified to profit or loss								
Remeasurements of post-employment benefit obligations	(406)	199	(207)	199	–	–	199	–
Fair value changes of equity instruments designated as measured at fair value through other comprehensive income	599	444	1,043	592	–	(148)	444	–
Others	521	59	580	59	–	–	59	–
(2) Other comprehensive income that may be reclassified subsequently to profit or loss								
Fair value changes of debt instruments measured at fair value through other comprehensive income	17,165	8,809	25,974	11,893	(234)	(2,829)	8,809	21
Allowances for credit losses of debt instruments measured at fair value through other comprehensive income	2,277	1,624	3,901	2,171	–	(547)	1,624	–
Net gains/(losses) on cash flow hedges	53	(292)	(239)	(292)	–	–	(292)	–
Exchange difference on translating foreign operations	(1,758)	2,692	934	2,682	–	–	2,692	(10)
Total	18,451	13,535	31,986	17,304	(234)	(3,524)	13,535	11

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

50 OTHER COMPREHENSIVE INCOME (CONTINUED)

	Other comprehensive income of the statement of financial position			Other comprehensive income of the statement of comprehensive income				
				2018				
	1 January 2018	Net-of-tax amount attributable to equity shareholders of the Bank	31 December 2018	The amount before income taxes	Less: Reclassification adjustments included in profit or loss due to disposals	Less: Income taxes	Net-of-tax amount attributable to equity shareholders of the Bank	Net-of-tax amount attributable to non-controlling interests
(1) Other comprehensive income that will not be reclassified to profit or loss								
Remeasurements of post-employment benefit obligations	(110)	(296)	(406)	(296)	–	–	(296)	–
Fair value changes of equity instruments designated as measured at fair value through other comprehensive income	479	120	599	160	–	(40)	120	–
Others	478	43	521	43	–	–	43	–
(2) Other comprehensive income that may be reclassified subsequently to profit or loss								
Fair value changes of debt instruments measured at fair value through other comprehensive income	(18,420)	35,585	17,165	47,816	(199)	(11,879)	35,585	153
Allowances for credit losses of debt instruments measured at fair value through other comprehensive income	1,976	301	2,277	404	–	(101)	301	2
Net gains/(losses) on cash flow hedges	320	(267)	53	(267)	–	–	(267)	–
Exchange difference on translating foreign operations	(4,322)	2,564	(1,758)	2,573	–	–	2,564	9
Total	(19,599)	38,050	18,451	50,433	(199)	(12,020)	38,050	164

51 SURPLUS RESERVE

Surplus reserves consist of statutory surplus reserve fund and discretionary surplus reserve fund.

The Bank is required to allocate 10% of its net profit, as determined under the Accounting Standards for Business Enterprises and other relevant requirements issued by the MOF on 15 February 2006. After making appropriations to the statutory surplus reserve fund, the Bank may also allocate its net profit to the discretionary surplus reserve fund upon approval by shareholders in Annual General Meetings.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

52 GENERAL RESERVE

The general reserve of the Group is set up based upon the requirements of:

	Note	31 December 2019	31 December 2018
MOF	(1)	**305,825**	272,001
Hong Kong Banking Ordinance	(2)	**2,124**	2,124
Other regulatory bodies in Mainland China	(3)	**5,753**	4,908
Other overseas regulatory bodies		**687**	692
Total		**314,389**	279,725

(1) Pursuant to relevant regulations issued by the MOF, the Bank has to appropriate a certain amount of its net profit as general reserve to cover potential losses against its assets. In accordance with the "Regulation on Management of Financial Institutions for Reserves" (Cai Jin [2012] No. 20) issued by the MOF on 30 March 2012, the general reserve balance for financial institutions should not be lower than 1.5% of the ending balance of gross risk-bearing assets.

(2) Pursuant to the requirements of the Hong Kong Banking Ordinance, the Group's banking operations in Hong Kong are required to set aside amounts in a regulatory reserve in respect of losses which it will, or may, incur on loans and advances to customers, in addition to impairment losses recognised in accordance with the accounting policies of the Group. Transfers to and from the regulatory reserve are made through retained earnings.

(3) Pursuant to the relevant regulatory requirements in Mainland China, the Bank's subsidiaries are required to appropriate a certain amount of its net profit as general reserve.

53 PROFIT DISTRIBUTION

In the Annual General Meeting held on 21 June 2019, the shareholders approved the profit distribution for the year ended 31 December 2018. The Bank appropriated cash dividend for the year ended 31 December 2018 in an aggregate amount of RMB76,503 million.

In the Board of Directors' Meeting, held on 30 October 2019, the directors approved the payment of dividends to offshore preference shareholders and domestic preference shareholders. The dividends for the offshore preference shares distributed were US$157,583,333.33 (including taxes), calculated using the initial dividend rate of 4.65% (after taxes) as set in the terms and conditions, including US$141,825,000 actually paid to offshore preference shareholders after the deduction of US$15,758,333.33 of withholding income tax and the dividends equaled RMB1,112 million. The dividends for domestic preference shares distributed were RMB2,850 million, calculated using the nominal dividend rate of 4.75% (including taxes) as set in the terms and conditions.

On 27 March 2020, Board of Directors proposed the following profit distribution scheme for the year ended 31 December 2019:

(1) Appropriate statutory surplus reserve amounted to RMB25,947 million, based on 10% of the net profit of the Bank amounted to RMB259,466 million for the year ended 31 December 2019 (for the year ended 31 December 2018: RMB24,618 million). It has been recorded in "Surplus reserve" as at the balance sheet date.

(2) Appropriate general reserve amounted to RMB33,824 million, pursuant to relevant regulations issued by MOF (for the year ended 31 December 2018: RMB17,897 million).

(3) Declare cash dividend RMB0.320 per share before tax and in aggregation amount of RMB80,004 million to all shareholders (for the year ended 31 December 2018: RMB0.306 per share and RMB76,503 million in aggregation). Proposed dividends as at the balance sheet date are not recognised as a liability.

Above proposed profit distribution scheme is subject to the approval of the shareholders in the Annual General Meeting. Cash dividends will be distributed to all shareholders registered at the relevant date upon approval.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

54 NOTES TO THE STATEMENT OF CASH FLOWS

Cash and cash equivalents

	31 December 2019	31 December 2018
Cash	60,791	65,215
Surplus deposit reserves with central banks	398,676	389,425
Demand deposits with banks and non-bank financial institutions	91,819	60,531
Time deposits with banks and non-bank financial institutions with original maturity with or within three months	281,348	211,186
Placements with banks and non-bank financial institutions with original maturity with or within three months	219,706	134,345
Total	1,052,340	860,702

55 TRANSFERRED FINANCIAL ASSETS

The Group enters into transactions in the normal course of business by which it transfers recognised financial assets to third parties or to structured entities. In some cases where these transfers may give rise to full or partial derecognition of the financial assets concerned. In other cases where the transferred assets do not qualify for derecognition as the Group has retained substantially all the risks and rewards of these assets, the Group continued to recognise the transferred assets.

Securities lending transactions

Transferred financial assets that do not qualify for derecognition 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 RMB5,291 million (as at 31 December 2018: nil).

Credit asset securitisation transactions

The Group enters into securitisation transactions in its 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 holding subordinated tranches which would 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.

As at 31 December 2019, loans with an original carrying amount of RMB608,956 million (as at 31 December 2018: RMB447,278 million) have been securitised by the Group under arrangements in which the Group retained a continuing involvement in such assets. As at 31 December 2019, the carrying amount of assets that the Group continued to recognise was RMB66,306 million (as at 31 December 2018: RMB49,017 million). As at 31 December 2019, the carrying amount of continuing involvement assets and liabilities that the Group continued to recognise was RMB66,507 million (as at 31 December 2018: RMB47,515 million).

As at 31 December 2019, the carrying amount of asset-backed securities held in the securitisation transaction derecognised by the Group was RMB292 million (as at 31 December 2018: RMB187 million), and its maximum loss exposure approximates to the carrying amount.

56 OPERATING SEGMENTS

The Group has presented the operating segments in a manner consistent with the way in which information is reported internally to the Group's chief operating decision makers for the purposes of resource allocation and performance assessment. Measurement of segment assets and liabilities and segment income and results is based on the Group's accounting policies.

Transactions between segments are conducted under normal commercial terms and conditions. Internal charges and transfer prices are determined with reference to market rates and have been reflected in the performance of each segment. Net interest income and expense arising from internal charges and transfer pricing adjustments are referred to as "internal net interest income/expense". Interest income and expense earned from third parties are referred to as "external net interest income/expense".

Segment revenues, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment income and results are determined before intra-group transactions are eliminated as part of the consolidation process. Segment capital expenditure is the total cost incurred during the period to acquire fixed assets, intangible assets and other long-term assets.

56 OPERATING SEGMENTS (CONTINUED)

(1) Geographical segments

The Group operates principally in Mainland China with branches covering all provinces, autonomous regions and municipalities directly under the central government, and several subsidiaries located in Mainland China. The Group also has bank branch operations in Hong Kong, Macau, Taiwan, Singapore, Frankfurt, Johannesburg, Tokyo, Seoul, New York, Sydney, Ho Chi Minh City, Luxembourg, Toronto, London, Zurich, Dubai, Chile, Astana, Labuan, Auckland, etc. and certain subsidiaries operating in Hong Kong, London, Moscow, Luxembourg, British Virgin Islands, Auckland, Jakarta, San Paulo and Kuala Lumpur, etc.

In presenting information on the basis of geographical segments, operating income is allocated based on the location of the branches and subsidiaries that generate the income. Segment assets, liabilities and capital expenditure are allocated based on their geographical location.

Geographical segments of the Group, as defined for management reporting purposes, are defined as follows:

- "Yangtze River Delta" refers to the following areas where the tier-1 branches and the subsidiaries of the Bank operate: Shanghai Municipality, Jiangsu Province, Zhejiang Province, City of Ningbo and City of Suzhou;
- "Pearl River Delta" refers to the following areas where the tier-1 branches of the Bank operate: Guangdong Province, City of Shenzhen, Fujian Province and City of Xiamen;
- "Bohai Rim" refers to the following areas where the tier-1 branches and the subsidiaries of the Bank operate: Beijing Municipality, Shandong Province, Tianjin Municipality, Hebei Province and City of Qingdao;
- the "Central" region refers to the following areas where the tier-1 branches and the subsidiaries of the Bank operate: Shanxi Province, Guangxi Autonomous Region, Hubei Province, Henan Province, Hunan Province, Jiangxi Province, Hainan Province and Anhui Province;
- the "Western" region refers to the following areas where the tier-1 branches and the subsidiaries of the Bank operate: Sichuan Province, Chongqing Municipality, Guizhou Province, Yunnan Province, Tibet Autonomous Region, Inner Mongolia Autonomous Region, Shaanxi Province, Gansu Province, Qinghai Province, Ningxia Autonomous Region and Xinjiang Autonomous Region; and
- the "Northeastern" region refers to the following areas where the tier-1 branches and the subsidiaries of the Bank operate: Liaoning Province, Jilin Province, Heilongjiang Province and City of Dalian.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

56 OPERATING SEGMENTS (CONTINUED)

(1) Geographical segments (continued)

	Twelve months ended 31 December 2019								
	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central	Western	Northeastern	Head Office	Overseas	Total
External net interest income	58,955	56,235	41,545	64,405	56,390	10,442	210,156	12,552	510,680
Internal net interest income/(expense)	19,231	16,158	36,168	26,827	25,367	13,445	(136,338)	(858)	–
Net interest income	78,186	72,393	77,713	91,232	81,757	23,887	73,818	11,694	510,680
Net fee and commission income	15,962	23,057	18,340	16,666	11,305	4,180	45,079	2,695	137,284
Net trading gain	97	202	180	188	111	6	8,319	17	9,120
Dividend income	77	5	138	30	11	–	74	849	1,184
Net gain/(loss) arising from investment securities	4,022	(255)	(26)	331	(416)	326	4,294	817	9,093
Net gain/(loss) on derecognition of financial assets measured at amortised cost	2	–	205	(1)	–	–	2,785	368	3,359
Other operating (expense)/income, net	(1,177)	545	1,199	423	1,179	301	209	4,602	7,281
Operating income	97,169	95,947	97,749	108,869	93,947	28,700	134,578	21,042	678,001
Operating expenses	(28,961)	(24,439)	(29,414)	(34,827)	(30,911)	(12,046)	(14,972)	(12,562)	(188,132)
Credit impairment losses	(15,250)	(17,040)	(34,529)	(34,405)	(28,665)	(8,122)	(22,166)	(2,823)	(163,000)
Other impairment losses	(31)	(29)	(250)	(28)	49	(27)	(169)	(36)	(521)
Share of profits of associates and joint ventures	–	–	8	225	–	–	–	16	249
Profit before tax	52,927	54,439	33,564	39,834	34,420	8,505	97,271	5,637	326,597
Capital expenditure	2,345	1,665	2,970	3,375	2,670	1,026	3,065	4,767	21,883
Depreciation and amortisation	3,516	3,066	3,802	4,489	3,756	1,739	2,044	1,515	23,927
	31 December 2019								
Segment assets	4,749,944	3,767,856	5,570,438	4,480,717	3,670,832	1,286,929	9,745,744	1,722,267	34,994,727
Long-term equity investments	1	–	3,764	6,971	–	–	–	617	11,353
	4,749,945	3,767,856	5,574,202	4,487,688	3,670,832	1,286,929	9,745,744	1,722,884	35,006,080
Deferred tax assets									72,314
Elimination									(9,642,133)
Total assets									25,436,261
Segment liabilities	4,738,703	3,754,627	5,473,747	4,488,214	3,678,278	1,290,772	7,817,032	1,601,437	32,842,810
Deferred tax liabilities									457
Elimination									(9,642,133)
Total liabilities									23,201,134
Off-balance sheet credit commitments	546,411	506,947	640,521	557,471	407,151	149,396	–	277,910	3,085,807

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

56 OPERATING SEGMENTS (CONTINUED)

(1) Geographical segments (continued)

	Twelve months ended 31 December 2018								
	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central	Western	Northeastern	Head Office	Overseas	Total
External net interest income	56,645	52,140	41,781	59,244	56,944	14,066	188,612	16,846	486,278
Internal net interest income/(expense)	19,917	15,545	32,295	26,350	24,542	10,289	(123,248)	(5,690)	–
Net interest income	76,562	67,685	74,076	85,594	81,486	24,355	65,364	11,156	486,278
Net fee and commission income	16,983	17,338	17,995	15,775	10,535	4,178	36,987	3,244	123,035
Net trading gain/(loss)	369	608	408	336	257	58	11,250	(672)	12,614
Dividend income	112	7	1	52	10	–	60	531	773
Net (loss)/gain arising from investment securities	(1,367)	(571)	(504)	29	(103)	(37)	4,157	1,840	3,444
Net gain/(loss) on derecognition of financial assets measured at amortised cost	13	–	–	1	–	–	(2,391)	136	(2,241)
Other operating (expense)/income, net	(410)	574	2,138	516	2,245	107	(17)	4,716	9,869
Operating income	92,262	85,641	94,114	102,303	94,430	28,661	115,410	20,951	633,772
Operating expenses	(27,709)	(22,399)	(26,989)	(30,949)	(29,138)	(11,302)	(18,254)	(8,024)	(174,764)
Credit impairment losses	(14,827)	(14,405)	(33,748)	(30,532)	(22,652)	(16,569)	(16,110)	(2,266)	(151,109)
Other impairment losses	28	41	(232)	(118)	(9)	(8)	526	(107)	121
Share of profits/(losses) of associates and joint ventures	–	–	1	427	–	–	–	(288)	140
Profit before tax	49,754	48,878	33,146	41,131	42,631	782	81,572	10,266	308,160
Capital expenditure	1,530	1,874	3,917	2,987	2,240	1,261	2,112	2,944	18,865
Depreciation and amortisation	2,594	1,819	2,583	3,536	2,837	1,495	2,522	488	17,874
	31 December 2018								
Segment assets	4,552,907	3,568,920	5,294,858	4,200,214	3,448,750	1,179,534	9,090,812	1,693,490	33,029,485
Long-term equity investments	1	–	6	6,966	–	–	–	1,029	8,002
	4,552,908	3,568,920	5,294,864	4,207,180	3,448,750	1,179,534	9,090,812	1,694,519	33,037,487
Deferred tax assets									58,730
Elimination									(9,873,524)
Total assets									23,222,693
Segment liabilities	4,545,367	3,572,390	5,280,416	4,208,014	3,453,631	1,189,598	7,280,378	1,574,344	31,104,138
Deferred tax liabilities									485
Elimination									(9,873,524)
Total liabilities									21,231,099
Off-balance sheet credit commitments	512,137	461,552	653,558	495,996	378,075	143,531	100	203,775	2,848,724

56 OPERATING SEGMENTS (CONTINUED)

(2) Business segments

Business segments, as defined for management reporting purposes, are as follows:

Corporate banking

This segment represents the provision of a range of financial products and services to corporations, government agencies and financial institutions. The products and services include corporate loans, trade financing, deposit taking and wealth management services, agency services, financial consulting and advisory services, cash management services, remittance and settlement services, custody services and guarantee services, etc.

Personal banking

This segment represents the provision of a range of financial products and services to individual customers. The products and services comprise personal loans, deposit taking and wealth management services, card business, remittance services and agency services, etc.

Treasury business

This segment covers the Group's treasury operations. The treasury enters into inter-bank money market transactions, repurchase and resale transactions, and invests in debt securities. It also trades in derivatives and foreign currencies for its own account. The treasury carries out customer-driven derivatives, foreign currency and precious metal trading. Its function also includes the management of the Group's overall liquidity position, including the issuance of debt securities.

Others

These represent equity investments and the revenues, results, assets and liabilities of overseas branches and subsidiaries.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

56 OPERATING SEGMENTS (CONTINUED)

(2) Business segments (continued)

	Twelve months ended 31 December 2019				
	Corporate banking	Personal banking	Treasury business	Others	Total
External net interest income	183,972	121,597	183,827	21,284	510,680
Internal net interest income/(expense)	51,169	63,416	(107,464)	(7,121)	–
Net interest income	235,141	185,013	76,363	14,163	510,680
Net fee and commission income	32,376	82,698	14,628	7,582	137,284
Net trading (loss)/gain	(398)	(42)	3,712	5,848	9,120
Dividend income	–	–	2	1,182	1,184
Net (loss)/gain arising from investment securities	(2,835)	(2,921)	12,119	2,730	9,093
Net (loss)/gain on derecognition of financial assets measured at amortised cost	(13)	2,665	132	575	3,359
Other operating income, net	36	594	2,365	4,286	7,281
Operating income	264,307	268,007	109,321	36,366	678,001
Operating expenses	(68,178)	(91,230)	(12,045)	(16,679)	(188,132)
Credit impairment losses	(123,164)	(28,135)	(5,506)	(6,195)	(163,000)
Other impairment losses	(271)	–	(77)	(173)	(521)
Share of profits of associates and joint ventures	–	–	–	249	249
Profit before tax	72,694	148,642	91,693	13,568	326,597
Capital expenditure	5,888	8,890	945	6,160	21,883
Depreciation and amortisation	8,097	12,225	1,300	2,305	23,927
	31 December 2019				
Segment assets	8,132,225	6,658,229	9,070,449	1,739,892	25,600,795
Long-term equity investments	–	–	–	11,353	11,353
	8,132,225	6,658,229	9,070,449	1,751,245	25,612,148
Deferred tax assets					72,314
Elimination					(248,201)
Total assets					25,436,261
Segment liabilities	10,629,081	9,174,974	1,414,808	2,230,015	23,448,878
Deferred tax liabilities					457
Elimination					(248,201)
Total liabilities					23,201,134
Off-balance sheet credit commitments	1,789,423	1,018,474	–	277,910	3,085,807

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

56 OPERATING SEGMENTS (CONTINUED)

(2) Business segments (continued)

	Twelve months ended 31 December 2018				
	Corporate banking	Personal banking	Treasury business	Others	Total
External net interest income	171,838	123,046	170,952	20,442	486,278
Internal net interest income/(expense)	65,135	59,385	(116,334)	(8,186)	–
Net interest income	236,973	182,431	54,618	12,256	486,278
Net fee and commission income	28,713	72,303	12,251	9,768	123,035
Net trading (loss)/gain	(285)	(91)	4,652	8,338	12,614
Dividend income	–	–	–	773	773
Net (loss)/gain arising from investment securities	(3,929)	(4,373)	15,220	(3,474)	3,444
Net (loss)/gain on derecognition of financial assets measured at amortised cost	(2,691)	184	116	150	(2,241)
Other operating income, net	13	619	8,511	726	9,869
Operating income	258,794	251,073	95,368	28,537	633,772
Operating expenses	(64,005)	(85,083)	(11,014)	(14,662)	(174,764)
Credit impairment losses	(120,448)	(26,256)	(269)	(4,136)	(151,109)
Other impairment losses	(173)	–	650	(356)	121
Share of profits of associates and joint ventures	–	–	–	140	140
Profit before tax	74,168	139,734	84,735	9,523	308,160
Capital expenditure	5,616	8,076	955	4,218	18,865
Depreciation and amortisation	6,535	9,399	1,111	829	17,874
	31 December 2018				
Segment assets	7,555,369	6,043,043	8,252,601	1,526,264	23,377,277
Long-term equity investments	–	–	–	8,002	8,002
	7,555,369	6,043,043	8,252,601	1,534,266	23,385,279
Deferred tax assets					58,730
Elimination					(221,316)
Total assets					23,222,693
Segment liabilities	10,098,929	8,256,278	1,058,771	2,037,952	21,451,930
Deferred tax liabilities					485
Elimination					(221,316)
Total liabilities					21,231,099
Off-balance sheet credit commitments	1,771,513	873,436	–	203,775	2,848,724

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

57 ENTRUSTED LENDING BUSINESS

As at the end of the reporting period, the entrusted loans and funds were as follows:

	31 December 2019	31 December 2018
Entrusted loans	**3,219,935**	2,922,226
Entrusted funds	**3,219,935**	2,922,226

58 PLEDGED ASSETS

(1) Assets pledged as security

The Group's collaterals for liabilities or contingent liabilities include financial assets such as securities and bills, which mainly serve as collaterals for repurchase agreements, derivative contracts and local statutory requirements. As at 31 December 2019, the carrying values of the Group's and the Bank's financial assets pledged as collaterals amounted to around RMB923,623 million.

(2) Collateral accepted as security for assets

As part of the resale agreements, the Group has received securities that is allowed to sell or repledge in the absence of default by their owners. As at 31 December 2019, the Group had received securities with a fair value of approximately RMB8,589 million on such terms (31 December 2018: Nil).

59 COMMITMENTS AND CONTINGENT LIABILITIES

(1) Credit commitments

Credit commitments take the form of undrawn loan facilities which are approved and contracted, unutilised credit card limits, financial guarantees, letters of credit, etc. The Group assesses and makes allowance for any probable losses accordingly.

The contractual amounts of loan commitments and credit card overdraft commitments represent the cash outflows should the contracts be fully drawn upon. The amounts of guarantees and letters of credit represent the maximum potential loss that would be recognised if counterparties failed completely to perform as contracted. Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers.

As credit commitments may expire without being drawn upon, the contractual amounts set out in the following table do not represent the expected future cash outflows.

	31 December 2019	31 December 2018
Loan commitments		
– with an original maturity within one year	**94,491**	150,257
– with an original maturity of one year or over	**373,227**	306,838
Credit card commitments	**1,063,718**	923,508
	1,531,436	1,380,603
Bank acceptances	**207,578**	230,756
Financing guarantees	**61,876**	51,422
Non-financing guarantees	**1,125,462**	1,006,748
Sight letters of credit	**36,629**	34,159
Usance letters of credit	**119,211**	130,195
Others	**3,615**	14,841
Total	**3,085,807**	2,848,724

(2) Credit risk-weighted amount

The credit risk-weighted amount refers to the amount as computed in accordance with the rules set out by the CBIRC and depends on the status of the counterparty and the maturity characteristics.

	31 December 2019	31 December 2018
Credit risk-weighted amount of contingent liabilities and commitments	**1,050,190**	985,503

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

59 COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

(3) Capital commitments

As at the end of the reporting period, the Group had capital commitments as follows:

	31 December 2019	31 December 2018
Contracted for	**20,077**	11,792

(4) Underwriting obligations

As at 31 December 2019, the unexpired underwriting commitment of the Group were RMB60 million (as at 31 December 2018: nil).

(5) Government bond redemption obligations

As an underwriting agent of PRC government bonds, the Group has the responsibility to buy back those bonds sold by it should the holders decide to early redeem the bonds held. The redemption price for the bonds at any time before their maturity date is based on the coupon value plus any interest unpaid and accrued up to the redemption date. Accrued interest payables to the bond holders are calculated in accordance with relevant rules of the MOF and the PBOC. The redemption price may be different from the fair value of similar instruments traded at the redemption date.

The redemption obligations, which represent the nominal value of government bonds underwritten and sold by the Group, but not yet matured as at 31 December 2019, were RMB86,794 million (as at 31 December 2018: RMB81,331 million).

(6) Outstanding litigations and disputes

As at 31 December 2019, the Group was the defendant in certain pending litigations and disputes with gross claims of RMB9,593 million (as at 31 December 2018: RMB9,070 million). Provisions have been made for the estimated losses arising from such litigations based upon the opinions of the Group's internal and external legal counsels (Note 44). The Group considers that the provisions made are reasonable and adequate.

(7) Provision against commitments and contingent liabilities

The Group assessed and made provisions for any probable outflow of economic benefits in relation to the commitments and contingent liabilities in accordance with their accounting policies.

(8) Impact of the *Guiding Opinions on Regulating the Asset Management Business of Financial Institutions*

The Group is currently making arrangements for implementing remediation in accordance with the *Guiding Opinions on Regulating the Asset Management Business of Financial Institutions* which was jointly issued by the PBOC and three other ministries. The Group will duly implement relevant policies and regulatory requirements, assess and disclose relevant impact on a timely basis.

60 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(1) Transactions with parent companies and their affiliates

The parent companies of the Group are CIC and Huijin.

As approved by the State Council, CIC was established on 29 September 2007 with registered capital of RMB1,550,000 million. As a wholly-owned subsidiary of CIC, Huijin exercises its rights and obligations as an investor on behalf of the PRC government.

Huijin was incorporated on 16 December 2003 as a wholly-state-owned investment company. It was registered in Beijing with registered capital of RMB828,209 million. Its principal activities are equity investments as authorised by the State Council, without engaging in other commercial operations. As at 31 December 2019, Huijin directly held 57.11% of shares of the Bank.

The related companies under parent companies include the subsidiaries under parent companies and other associates and joint ventures.

The Group's transactions with parent companies and their affiliates mainly include deposit taking, entrusted asset management, operating leases, lending, purchase and sale of debt securities, money market transactions and inter-bank clearing. These transactions are priced based on market prices and conducted under normal commercial terms.

The Group has issued subordinated debts with a nominal value of RMB81,720 million (as at 31 December 2018: RMB145,236 million). These are bearer bonds and tradable in the secondary market. The Group has no information in respect of the amount of the bonds held by the affiliates of parent companies as at the end of the reporting period.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

60 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(1) Transactions with parent companies and their affiliates (continued)

(a) Transactions with parent companies

In the ordinary course of the business, material transactions that the Group entered into with parent companies are as follows:

Amounts

	2019		2018	
	Amount	Ratio to similar transactions	Amount	Ratio to similar transactions
Interest income	1,887	0.21%	1,980	0.24%
Interest expense	209	0.06%	95	0.03%
Net trading gain	11	0.12%	–	–

Balances outstanding as at the end of the reporting period

	31 December 2019		31 December 2018	
	Balance	Ratio to similar transactions	Balance	Ratio to similar transactions
Loans and advances to customers	22,000	0.15%	28,000	0.21%
Financial investments				
Financial assets measured at fair value through profit or loss	426	0.06%	–	–
Financial assets measured at amortised cost	13,090	0.35%	8,097	0.25%
Financial assets measured at fair value through other comprehensive income	17,278	0.96%	11,563	0.68%
Deposits from banks and non-bank financial institutions	25	0.00%	1,627	0.11%
Deposits from customers	1,379	0.01%	3,675	0.02%
Credit commitments	288	0.01%	288	0.01%

(b) Transactions with the affiliates of parent companies

In the ordinary course of the business, material transactions that the Group entered into with the affiliates of parent companies are as follows:

In the ordinary course of the business, material transactions that the Group entered into with the affiliates of parent companies are as follows:

Amounts

		2019		2018	
	Note	Amount	Ratio to similar transactions	Amount	Ratio to similar transactions
Interest income		20,659	2.34%	22,526	2.78%
Interest expense		4,099	1.10%	4,748	1.46%
Fee and commission income		196	0.13%	171	0.12%
Fee and commission expense		276	1.54%	208	1.39%
Net trading gain		857	9.40%	–	–
Net gain arising from investment securities		1,770	19.47%	–	–
Operating expenses	(i)	847	0.47%	884	0.53%

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

60 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(1) Transactions with parent companies and their affiliates (continued)

(b) Transactions with the affiliates of parent companies (continued)

Balances outstanding as at the end of the reporting period

		31 December 2019		31 December 2018	
	Note	Balance	Ratio to similar transactions	Balance	Ratio to similar transactions
Deposits with banks and non-bank financial institutions		47,017	11.20%	40,591	8.34%
Placements with banks and non-bank financial institutions		172,472	32.47%	96,352	27.55%
Positive fair value of derivatives		4,387	12.66%	4,811	9.51%
Financial assets held under resale agreements		34,246	6.14%	10,110	5.01%
Loans and advances to customers		86,960	0.60%	68,382	0.51%
Financial investments					
Financial assets measured at fair value through profit or loss		70,184	10.39%	17,067	2.33%
Financial assets measured at amortised cost		262,925	7.03%	294,975	9.01%
Financial assets measured at fair value through other comprehensive income		198,140	11.02%	229,510	13.41%
Other assets	(ii)	204	0.10%	211	0.16%
Deposits from banks and non-bank financial institutions	(iii)	94,204	5.63%	60,518	4.24%
Placements from banks and non-bank financial institutions		141,708	27.17%	117,661	28.00%
Financial liabilities measured at fair value through profit or loss		81	0.03%	–	–
Negative fair value of derivatives		4,666	13.81%	6,961	14.35%
Financial assets sold under repurchase agreements		5,172	4.51%	1,486	4.83%
Deposits from customers		46,787	0.25%	18,633	0.11%
Other liabilities		9,135	2.20%	4,467	1.59%
Credit commitments		27,156	0.88%	8,443	0.29%

(i) Operating expenses mainly represent fees for related services provided by parent companies and its affiliates.

(ii) Other assets mainly represent other receivables from the affiliates of parent companies.

(iii) Deposits from the affiliates of parent companies are unsecured and are repayable under normal commercial terms.

(2) Transactions with associates and joint ventures of the Group

Transactions between the Group and its associates and joint ventures are conducted in the normal and ordinary course of the business and under normal commercial terms as those transactions conducted between the Group and non-related companies outside the Group. In the ordinary course of the business, material transactions that the Group entered into with associates and joint ventures are as follows:

Amounts

	2019	2018
Interest income	101	399
Interest expense	13	322
Fee and commission income	366	197
Fee and commission expense	4	–
Net gain/(loss) arising from investment securities	(168)	–
Operating expenses	100	239

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

60 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(2) Transactions with associates and joint ventures of the Group (continued)

Balances outstanding as at the end of the reporting period

	31 December 2019	31 December 2018
Loans and advances to customers	3,474	8,634
Other assets	20	16
Financial liabilities measured at fair value through profit or loss	67	–
Negative fair value of derivatives	–	35
Deposits from customers	2,895	1,669
Other liabilities	743	419
Credit commitments	260	10

(3) Transactions between the Bank and its subsidiaries

Transactions between the Bank and its subsidiaries are conducted in the normal and ordinary course of the business and under normal commercial terms as those transactions are conducted between the Group and non-related companies outside the Group. All the inter-group transactions and inter-group balances are eliminated when preparing the consolidated financial statements as mentioned in Note 4(1)(b).

In the ordinary course of the business, material transactions that the Bank entered into with its subsidiaries are as follows:

Amounts

	2019	2018
Interest income	1,578	1,002
Interest expense	1,138	739
Fee and commission income	2,197	1,769
Fee and commission expense	1,155	575
Dividend income	323	311
Other operating expense, net	(209)	(192)
Operating expenses	4,807	990

Balances outstanding as at the end of the reporting period

	31 December 2019	31 December 2018
Deposits with banks and non-bank financial institutions	785	3,640
Placements with banks and non-bank financial institutions	109,493	77,992
Positive fair value of derivatives	137	327
Financial assets held under resale agreements	–	2,130
Loans and advances to customers	3,490	10,918
Financial investments		
Financial assets measured at fair value through profit or loss	697	–
Financial assets measured at amortised cost	1,062	2,127
Financial assets measured at fair value through other comprehensive income	13,210	10,336
Other assets	39,227	39,105

	31 December 2019	31 December 2018
Deposits from banks and non-bank financial institutions	22,675	6,688
Placements from banks and non-bank financial institutions	27,685	38,999
Financial liabilities measured at fair value through profit or loss	71	45
Negative fair value of derivatives	383	344
Financial assets sold under repurchase agreements	700	1,334
Deposits from customers	12,652	7,233
Debt securities issued	–	824
Other liabilities	2,328	281

60 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(3) Transactions between the Bank and its subsidiaries (continued)

As at 31 December 2019, the total maximum guarantee limit of guarantee letters issued by the Bank with its subsidiaries as beneficiary was RMB23,552 million (as at 31 December 2018: RMB38,733 million).

As at 31 December 2019, the transactions between subsidiaries of the Group were mainly debt securities issued and deposits with banks and non-bank financial institutions, and the balances of the above transactions were RMB1,702 million and RMB1,691 million respectively (as at 31 December 2018, the transactions between subsidiaries of the Group were deposits with banks and non-bank financial institutions and deposits from banks and non-bank financial institutions, and the balances of the above transactions were RMB2,509 million and RMB2,509 million respectively).

(4) Transactions with other PRC state-owned entities

State-owned entities refer to those entities directly or indirectly owned by the PRC government through its government authorities, agencies, affiliations and other organisations. Transactions with other state-owned entities include but are not limited to: lending and deposit taking; taking and placing of inter-bank balances; entrusted lending and other custody services; insurance and securities agency, and other intermediary services; purchase, sale, underwriting and redemption of bonds issued by other state-owned entities; purchase, sale and leases of property and other assets; and rendering and receiving of utilities and other services.

These transactions are conducted in the ordinary course of the Group's banking business on terms similar to those that would have been entered into with non-state-owned entities. The Group's pricing strategy and approval processes for major products and services, such as loans, deposits and commission income, do not depend on whether the customers are state-owned entities or not. Having due regard to the substance of the relationships, the Group is of the opinion that none of these transactions are material related party transactions that require separate disclosure.

(5) Transactions with the Annuity Scheme and Plan Assets

Apart from the obligations for defined contributions to the Annuity Scheme and regular banking transactions, there were no other transactions between the Group and the Annuity Scheme in 2019 and 2018.

As at 31 December 2019, the Group's supplementary retirement benefit plan assets of RMB3,670 million (as at 31 December 2018: RMB3,760 million) were managed by CCB Principal and management fees payable to CCB Principal were RMB19.52 million (as at 31 December 2018: RMB15.63 million).

(6) Key management personnel

Key management personnel are those persons having authorities and responsibilities for planning, directing and controlling the activities of the Group, directly or indirectly, including directors, supervisors and senior executives. The Group enters into banking transactions with key management personnel in the normal course of business. For the year ended 31 December 2019 and 2018, there were no material transactions and balances with key management personnel.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

60 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(6) Key management personnel (continued)

The compensation of directors and supervisors is disclosed in Note 16. The senior executives' annual compensation before individual income tax during the year is as follows:

	2019			
	Remuneration paid RMB'000	Contributions to defined contribution retirement schemes RMB'000	Other benefits in kind (Note (i)) RMB'000	Total (Note (ii)) RMB'000
Executive Vice President				
Huang Yi	521	50	115	686
Ji Zhihong	304	27	64	395
Chief Financial Officer				
Xu Yiming	788	46	159	993
Chief Risk Officer				
Jin Yanmin	460	27	91	578
Secretary to the Board				
Hu Changmiao	460	27	89	576
Former Executive Vice President				
Zhang Lilin	333	33	72	438
Liao Lin	463	46	138	647
Former Secretary to the Board				
Huang Zhiling	329	23	62	414
	3,658	279	790	4,727

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

60 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(6) Key management personnel (continued)

	2018			
	Accrued cost (Allowances) RMB'000	Social insurance, corporate annuity, supplementary medical insurance and housing fund paid by the Bank RMB'000	Other monetary income RMB'000	Total RMB'000
Executive Vice President				
Huang Yi	713	162	-	875
Zhang Lilin	713	145	-	858
Executive Vice President and Chief Risk Officer				
Liao Lin	1,608	204	-	1,812
Chief Financial Officer				
Xu Yiming	2,246	204	-	2,450
Secretary to the Board				
Huang Zhiling	1,872	169	-	2,041
Former Executive Vice President				
Yu Jingbo	297	60	-	357
Former Secretary to the Board				
Chen Caihong	374	18	-	392
	7,823	962	-	8,785

(i) Other benefits in kind included the Bank's contributions to medical fund, housing fund and other social insurances, which are payable to labour and security authorities based on the lower of certain percentage of the salaries and allowance or the prescribed upper limits as required by the relevant regulations issued by the government authorities. Other benefits also included the Bank's contribution to its own corporate annuity plan (which was set up in accordance with the relevant policies issued by the government authorities) and supplementary medical insurance.

(ii) The total compensation package for these key management personnel 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 to be adjusted for is not expected to have significant impact on the Group's financial statements for the year ended 31 December 2019. The final compensation will be disclosed in a separate announcement when determined.

(iii) The total compensation package for certain key management personnel for the year ended 31 December 2018 had not been finalised in accordance with regulations of the PRC relevant authorities till the date that the 2018 financial statements were announced. The aforesaid total compensation package for the key management personnel for the year ended 31 December 2018 has been reviewed and approved by the Board meeting of the Bank and the shareholders' general meeting of the Bank.

(iv) From 2015 onwards, remuneration of the Bank's leaders administered by central authorities has been paid in accordance with relevant policies relating to the central remuneration reform.

(7) Loans, quasi-loans and other credit transactions to directors, supervisors and senior executives

The Group had no material balance of loans, quasi-loans and other credit transactions to directors, supervisors and senior executives as at the end of reporting period. Those loans, quasi-loans and other credit transactions to directors, supervisors and senior executives were conducted in the normal and ordinary course of the business and under normal commercial terms or on the same terms and conditions with those which are available to other employees, based on terms and conditions granted to third parties adjusted for risk reduction.

61 RISK MANAGEMENT

The Group has exposure to the following risks:

– credit risk

– market risk

– liquidity risk

– operational risk

– insurance risk

This note presents information about the Group's exposures to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's capital management.

Risk management framework

The Board carries out the risk management responsibility pursuant to the Articles of Association of the Bank and other related regulatory requirements. The risk management committee under the Board is responsible for making risk management strategies, monitoring their implementation, and evaluating the overall risk profile on a regular basis. The Board reviews the statements of risk appetite regularly and communicates risk appetite through relevant policies. The board of supervisors oversees the building of the comprehensive risk management system, as well as the performance of the Board and the senior management in fulfilling their comprehensive risk management responsibilities. The senior management is responsible for carrying out the risk strategies adopted by the Board and organising the implementation of the comprehensive risk management activities across the Group.

Chief Risk Officer of the Bank assists the President with the corresponding risk management work within designated responsibilities. Risk management department is the leading management department responsible for the Group's comprehensive risk management, and the market risk management department, its subordinate department, is in charge of the management of market risks. Credit management department is the leading management department responsible for the overall credit risk management and country risk management. Asset & liability management department is the leading management department responsible for the management of liquidity risk and interest rate risk of the banking book. Internal control & compliance department is the leading management department responsible for operational risk and information technology risk management. Public relations & corporate culture department is in charge of reputational risk management. Strategy and policy coordination department is the leading management department responsible for strategic risk management. Other specialised departments are responsible for other respective risks.

The Bank places high priority on the risk management of subsidiaries, monitors their adherence to the risk appetite and conducts the overall risk assessment of subsidiaries on a regular basis. It established a centralised reporting mechanism for the risk management of subsidiaries, pushing subsidiaries to continuously improve their corporate governance. The subsidiaries implemented the risk management requirements of the parent bank through their corporate governance mechanisms, and established and improved their comprehensive risk management systems to enhance their compliance and risk management capabilities.

(1) Credit risk

Credit risk management

Credit risk represents the financial loss that arises from the failure of a debtor or counterparty to discharge its contractual obligations or commitments to the Group.

Credit business

The Risk Management Department takes the lead in the development and implementation of the credit risk measurement tools including customers rating and facilities grading. The Credit Management Department is responsible for establishing credit risk management policies and monitoring the quality of credit assets. The Special Assets Resolution Center is responsible for the special assets resolutions. The Credit Approval Department is responsible for the Group's comprehensive credit limits and credit approval of various credit businesses. While the Credit Management Department takes the lead, both the Credit Management Department and the Credit Approval Department will coordinate with the Corporate Banking Department, the Inclusive Finance Department, the Institutional Banking Department, the International Business Department, the Strategic Clients Department, the Housing Finance & Personal Lending Department, the Credit Card Center, and the Legal Affairs Department to implement the credit risk management policies and procedures.

61 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (continued)

Credit risk management (continued)

Credit business (continued)

With respect to the credit risk management of corporate and institutional business, the Group has accelerated the adjustment of its credit portfolio structure, enhanced post-lending monitoring, and refined the industry-specific guideline and policy baseline for credit approval. Management also fine-tuned the credit acceptance and exit policies, and optimised its economic capital and credit risk limit management. All these policies have been implemented to improve the overall asset quality. The Group manages credit risk throughout the entire credit process including pre-lending evaluations, credit approval and post-lending monitoring. The Group performs pre-lending evaluations by assessing the entity's credit ratings based on internal rating criteria and assessing the risk and rewards with respect to the proposed project. Credit approvals are granted by designated Credit Approval Officers. The Group continually carries out post-lending monitoring, particularly those related to targeted industries, geographical segments, products and clients. Any adverse events that may significantly affect a borrower's repayment ability are reported timely and measures are implemented to prevent and control risks.

With respect to the personal credit business, the Group relies on credit assessment of applicants as the basis for loan approval. Customer relationship managers are required to assess the income, credit history, and repayment ability of the applicant. The customer relationship managers then forward the application and recommendations to the loan-approval departments for consent. The Group monitors borrowers' repayment ability, the status of collateral and any changes to collateral value. Once a loan becomes overdue, the Group starts the recovery process according to standard recovery procedures.

To mitigate risks, the Group requests the customers to provide collateral and guarantees where appropriate. A refined management system and operating procedure for collateral have been developed, and there is a guideline to specify the suitability of accepting specific types of collateral. Collateral values, structures and legal covenants are regularly reviewed to ensure that they still serve their intended purposes and conform to market practices.

Treasury business

For risk management purposes, credit risk arising from debt securities and derivatives exposures is managed independently and information thereon is disclosed in Notes (1)(i) and (1)(j) below. The Group sets credit limits for treasury activities and monitors them regularly with reference to the fair values of the relevant financial instruments.

Measurement of expected credit losses (ECLs)

(A) Segmentation of financial instruments

The Group adopts a "three-stage" model for impairment based on changes in credit risk since initial recognition, to estimate the expected credit losses.

The key definition of the three stages are summarised below:

Stage 1: For financial instruments with no significant increase in credit risk after initial recognition, expected credit losses in the next 12 months are recognised.

Stage 2: For financial instruments with significant increase in credit risk since initial recognition, but with no objective evidence of impairment, lifetime expected credit losses are recognised.

Stage 3: For financial assets with objective evidence of impairment at the end of the reporting period, lifetime expected credit losses are recognised.

(B) Significant increase in credit risk (SICR)

The Group assesses whether the credit risk of a financial instrument has increased significantly since initial recognition on a quarterly basis. The Group sufficiently considers all reasonable and supportable information, including forward-looking information, which reflects the significant increase in credit risk. The major factors considered include regulatory and business environment, internal and external credit grading, repayment ability, operation capacity, contract terms of the loan, asset price, market interest rate, repayment behaviours, etc. The Group compares the risk of defaulted financial instruments as at the reporting date with that as at the date of initial recognition of an individual financial instrument or a group of financial instruments that shares the similar credit risk characteristics. The key factors are as follows: (1) The significant increase in probability of default (PD), for example, in principle, the internal credit rating of corporate loans and advances is 15 or below, and the internal credit rating of debt securities has dropped by 2 or more notches. (2) Other factors which cause significant increase in credit risk. Usually, it should be regarded as a significant increase in credit risk if the overdue days exceed 30 days.

61 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (continued)

Measurement of expected credit losses (ECLs) (continued)

(C) Definition of default and credit-impaired assets

The Group considers a financial instrument as default, when it is credit-impaired. Generally, overdue for more than 90 days on contractual payment terms is considered default.

In order to evaluate whether a financial asset is impaired, the Group considers the following criteria:

- Significant financial difficulty of the borrower or issuer;
- Breach of contract terms, such as a default or delinquency in interest or principal payments;
- The Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the Group would not otherwise consider;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- Disappearance of an active market for financial assets because of financial difficulties;
- Purchase or originate a financial asset by a large margin discount which reflects the fact of credit-impairment's occurrence;
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Group, including adverse changes in the payment status of borrowers in the Group, an increase in the unemployment rate in the geographical area of the borrowers, a decrease in property prices for mortgages in the relevant area, or adverse changes in industry conditions that affect the borrowers in the Group;
- Other objective evidence indicating there is an impairment of the financial asset.

The Group's definition of default has been consistently applied to the modelling process of PD, LGD and EAD during the ECL calculation.

(D) Measuring ECL – explanation of parameters, assumptions and estimation techniques

The ECL is recognised on either a 12-month or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether a financial instrument is considered to be credit-impaired. Expected credit losses are the discounted product of the weighted average of PD, LGD, and EAD under the three scenarios of positive, neutral and negative, defined as follows:

PD represents after consideration of forward-looking information, the likelihood of a borrower defaulting on its financial obligation in the future. Please refer to the disclosure above in this note for the definition of default.

LGD represents after consideration of forward-looking information, the Group's expectation on the ratio of extent of loss resulting from the default exposure.

EAD is the total amount of risk exposure on and off-balance sheet at the time of default. The exposure is determined by the repayment plan according to different types of products.

The discount rate used in the ECL calculation is the effective interest rate.

Please refer to further disclosure in this note for forward-looking information which is incorporated in the calculation of expected credit losses.

The assumptions underlying the ECL calculation, such as how the maturity profile of the PDs and how the collateral values change, are monitored and reviewed on a quarterly basis.

There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

61 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (continued)

Measurement of expected credit losses (ECLs) (continued)

(E) Forward-looking information incorporated in the ECL

The assessment of SICR and the calculation of ECLs both incorporate forward-looking information. The Group has performed historical data analysis and identified the key economic variables related to expected credit losses and made forward-looking adjustments, such as GDP, CPI, M2, PPI, RMB deposit reserve rate, London spot gold price, average exchange rate of US Dollar to RMB and so on. Taking GDP as an example, the predicted value in neutral scenario accords with the development goals issued by the Central People's Government, the predicted value in positive and negative scenarios will fluctuate up and down on the basis of the predicted value in neutral scenario. The forecasts of macroeconomic variables in the variable pool are provided periodically by the Group. The Group constructs empirical models to obtain the relationship between historical macroeconomic variables and PD and LGD, and the PD and LGD in a given future horizon are projected based on the forecasted macroeconomic variables.

The Group constructs empirical models to determine the weightings in positive, neutral and negative. For the years ended 31 December 2019 and 2018, the positive, neutral and negative scenarios are of comparable weighting. Following this assessment, the Group measures ECLs as a weighted average probability of ECLs in the next 12-month under the three scenarios for Stage 1 financial instruments; and a weighted average probability of lifetime ECLs for Stage 2 and 3 financial instruments.

(F) Grouping of financial instruments for losses measured on a collective basis

For expected credit loss provisions modelled on a collective basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a group are homogeneous. In performing this grouping, there must be sufficient information for the group to be statistically credible. The Group uses credit rating, product types and client types, etc. for grouping to calculate the losses measured on a collective basis.

(a) Maximum credit risk exposure

The following table presents the maximum exposure to credit risk as at the end of the reporting period without taking into consideration any collateral held or other credit enhancement. In respect of the financial assets recognised in the statement of financial position, the maximum exposure to credit risk is represented by the carrying amount after deducting any impairment allowance.

	31 December 2019	31 December 2018
Deposits with central banks	**2,560,219**	2,567,648
Deposits with banks and non-bank financial institutions	**419,661**	486,949
Placements with banks and non-bank financial institutions	**531,146**	349,727
Positive fair value of derivatives	**34,641**	50,601
Financial assets held under resale agreements	**557,809**	201,845
Loans and advances to customers	**14,540,667**	13,365,430
Financial investments		
Financial assets measured at fair value through profit or loss	**496,653**	630,241
Financial assets measured at amortised cost	**3,740,296**	3,272,514
Financial assets measured at fair value through other comprehensive income	**1,791,553**	1,707,884
Other financial assets	**164,565**	123,629
Total	**24,837,210**	22,756,468
Off-balance sheet credit commitments	**3,085,807**	2,848,724
Maximum credit risk exposure	**27,923,017**	25,605,192

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61 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (continued)

(b) Loans and advances to customers analysed by credit quality

Within overdue but not credit impaired loans and advances and credit impaired loans and advances, the portions covered and not covered by collateral held are as follows:

	31 December 2019		
	Overdue but not credit impaired loans and advances		**Credit impaired loans and advances**
	Corporate	**Personal**	**Corporate**
Portion covered	**1,305**	**14,249**	**66,611**
Portion not covered	**2,218**	**9,330**	**118,504**
Total	**3,523**	**23,579**	**185,115**

	31 December 2018		
	Overdue but not credit impaired loans and advances		Credit impaired loans and advances
	Corporate	Personal	Corporate
Portion covered	1,737	15,239	22,581
Portion not covered	1,482	10,757	150,459
Total	3,219	25,996	173,040

The above collateral includes land use rights, buildings and equipment, etc. The fair value of collateral was estimated by the Group with reference to the latest available external valuations adjusted after taking into account the current realisation experience as well as the market situation.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

61 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (continued)

(c) *Loans and advances to customers analysed by economic sector concentrations*

	31 December 2019			31 December 2018		
	Gross loan balance	Percentage	Balance secured by collateral	Gross loan balance	Percentage	Balance secured by collateral
Corporate loans and advances						
– Transportation, storage and postal services	1,532,989	10.20%	520,042	1,435,520	10.42%	497,172
– Manufacturing	1,266,240	8.43%	319,672	1,260,179	9.14%	338,453
– Leasing and commercial services	1,137,429	7.57%	419,247	1,048,235	7.61%	367,530
– Production and supply of electric power, heat, gas and water	837,974	5.58%	198,857	840,381	6.10%	201,091
– Real estate	658,957	4.39%	345,101	630,192	4.57%	312,305
– Wholesale and retail trade	521,670	3.47%	245,607	426,948	3.10%	188,993
– Water, environment and public utility management	438,817	2.92%	215,848	409,137	2.97%	203,576
– Construction	337,375	2.25%	86,217	311,157	2.26%	75,368
– Mining	232,837	1.55%	18,925	254,241	1.84%	21,878
– Agriculture, forestry, farming, fishing	72,200	0.48%	16,092	67,256	0.49%	21,355
– Education	66,651	0.44%	14,397	66,476	0.48%	15,071
– Public management, social securities and social organisation	59,969	0.40%	4,770	70,578	0.51%	9,406
– Others	779,625	5.19%	186,851	658,166	4.77%	163,219
Total corporate loans and advances	7,942,733	52.87%	2,591,626	7,478,466	54.26%	2,415,417
Personal loans and advances	6,552,480	43.62%	5,515,937	5,957,545	43.22%	5,004,794
Discounted bills	492,693	3.28%	–	310,244	2.25%	–
Accrued interest	34,919	0.23%	–	36,798	0.27%	–
Total loans and advances to customers	15,022,825	100.00%	8,107,563	13,783,053	100.00%	7,420,211

Details of impaired loans, impairment allowances, charges, and amounts written off in respect of economic sectors which constitute 10% or more of the total gross loans and advances to customers are as follows:

	31 December 2019				2019	
		Allowances for expected credit losses				
	Stage 3 Gross loans	Stage 1	Stage 2	Stage 3	Charge for the year	Written off during the year
Transportation, storage and postal services	28,663	(28,436)	(11,075)	(20,105)	(25,268)	440

	31 December 2018				2018	
		Allowances for expected credit losses				
	Stage 3 Gross loans	Stage 1	Stage 2	Stage 3	Charge for the year	Written off during the year
Transportation,storage and postal services	16,500	(17,555)	(8,509)	(10,339)	(13,930)	545

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61 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (continued)

(d) Loans and advances to customers analysed by geographical sector concentrations

	31 December 2019			31 December 2018		
	Gross loan balance	**Percentage**	**Balance secured by collateral**	Gross loan balance	Percentage	Balance secured by collateral
Central	**2,684,077**	**17.87%**	**1,681,971**	2,418,013	17.54%	1,505,629
Yangtze River Delta	**2,584,684**	**17.21%**	**1,593,754**	2,386,931	17.31%	1,491,555
Bohai Rim	**2,527,254**	**16.82%**	**1,226,117**	2,292,606	16.63%	1,109,429
Western	**2,480,840**	**16.51%**	**1,430,658**	2,277,666	16.53%	1,299,688
Pearl River Delta	**2,320,984**	**15.45%**	**1,626,994**	2,085,684	15.13%	1,454,487
Northeastern	**738,388**	**4.92%**	**361,023**	712,310	5.17%	357,228
Head office	**747,741**	**4.98%**	**–**	685,733	4.98%	–
Overseas	**903,938**	**6.01%**	**187,046**	887,312	6.44%	202,195
Accrued interest	**34,919**	**0.23%**	**–**	36,798	0.27%	–
Gross loans and advances to customers	**15,022,825**	**100.00%**	**8,107,563**	13,783,053	100.00%	7,420,211

Details of Stage 3 loans and expected credit losses in respect of geographical sectors are as follows:

	31 December 2019			
	Stage 3 Gross	**Allowances for expected credit losses**		
	loan balance	**Stage 1**	**Stage 2**	**Stage 3**
Bohai Rim	**43,954**	**(40,048)**	**(19,612)**	**(29,160)**
Western	**40,008**	**(45,034)**	**(14,822)**	**(30,225)**
Central	**46,289**	**(45,490)**	**(15,072)**	**(31,019)**
Yangtze River Delta	**25,796**	**(43,980)**	**(18,604)**	**(17,829)**
Pearl River Delta	**24,914**	**(38,381)**	**(11,878)**	**(16,651)**
Northeastern	**20,384**	**(12,623)**	**(8,916)**	**(15,074)**
Head office	**8,185**	**(11,010)**	**(2,216)**	**(7,227)**
Overseas	**2,943**	**(3,461)**	**(1,760)**	**(2,066)**
Total	**212,473**	**(240,027)**	**(92,880)**	**(149,251)**

	31 December 2018			
	Stage 3 Gross	Allowances for expected credit losses		
	loans balance	Stage 1	Stage 2	Stage 3
Bohai Rim	42,331	(28,558)	(19,930)	(29,548)
Western	36,092	(31,323)	(15,091)	(24,688)
Central	34,087	(33,900)	(14,904)	(25,313)
Yangtze River Delta	26,234	(34,526)	(18,960)	(18,543)
Pearl River Delta	24,077	(29,859)	(10,630)	(14,627)
Northeastern	25,850	(9,996)	(11,195)	(19,095)
Head office	8,123	(11,317)	(2,112)	(6,395)
Overseas	4,087	(4,136)	(802)	(2,175)
Total	200,881	(183,615)	(93,624)	(140,384)

The definitions of geographical segments are set out in Note 56(1). The above allowances for ECL do not include allowances for ECL of loans and advances measured at FVOCI.

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61 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (continued)

(e) *Loans and advances to customers analysed by type of collateral*

	31 December 2019	31 December 2018
Unsecured loans	**4,959,932**	4,301,972
Guaranteed loans	**1,920,411**	2,024,072
Loans secured by property and other immovable assets	**6,875,286**	6,218,435
Other pledged loans	**1,232,277**	1,201,776
Accrued interest	**34,919**	36,798
Gross loans and advances to customers	**15,022,825**	13,783,053

(f) *Restructured loans and advances to customers*

Restructured loans and advances to customers are those loans and advances to customers for which the Group has modified the contract terms as a result of the deterioration in the borrower's financial position or of the borrower's inability to make payments when due. The gross carrying amount of the Group's restructured loans and advances to customers were not significant for the years ended 31 December 2019 and 2018.

(g) *Credit exposure*

Loans and advances to customers

	31 December 2019			
	Stage 1 12 months ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Low risk	**14,294,751**	**26,214**	**–**	**14,320,965**
Medium risk	**–**	**439,186**	**–**	**439,186**
High risk	**–**	**–**	**212,473**	**212,473**
Gross loans and advances	**14,294,751**	**465,400**	**212,473**	**14,972,624**
Allowances for impairment losses on loans and advances measured at amortised cost	**(240,027)**	**(92,880)**	**(149,251)**	**(482,158)**
Allowances for impairment losses on loans and advances measured at fair value through other comprehensive income	**(958)**	**(94)**	**(570)**	**(1,622)**

	31 December 2018			
	Stage 1 12 months ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Low risk	13,112,857	12,230	–	13,125,087
Medium risk	3,521	383,909	–	387,430
High risk	–	–	200,881	200,881
Gross loans and advances	13,116,378	396,139	200,881	13,713,398
Allowances for impairment losses on loans and advances measured at amortised cost	(183,615)	(93,624)	(140,384)	(417,623)

The Group classifies asset risk characteristics according to the quality of assets. "Low risk" means that the borrower can fulfil the contract, and there are not enough reasons to suspect that the principal and interest of the loan cannot be repaid in full on time; "Medium risk" means that the borrower is currently able to repay the principal and interest of the loan, but there are some factors that may adversely affect the repayment; "High risk" means that the borrower has obvious problems in its repayment ability and loan principal and interest cannot be repaid in full by relying on normal business income. Even if the guarantee is enforced, losses may be incurred.

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61 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (continued)

(g) Credit exposure (continued)

Off-balance sheet business

	31 December 2019			
	Stage 1 12 months ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Low risk	3,019,124	–	–	3,019,124
Medium risk	–	56,814	–	56,814
High risk	–	–	9,869	9,869
Total carrying amount	3,019,124	56,814	9,869	3,085,807
Allowance for impairment losses	(24,773)	(4,401)	(6,305)	(35,479)

	31 December 2018			
	Stage 1 12 months ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Low risk	2,759,992	–	–	2,759,992
Medium risk	–	84,082	–	84,082
High risk	–	–	4,650	4,650
Total carrying amount	2,759,992	84,082	4,650	2,848,724
Allowance for impairment losses	(22,344)	(5,971)	(2,909)	(31,224)

The Group classifies asset risk characteristics according to the quality of assets. "Low risk" means that the borrower can fulfil the contract, and there are not enough reasons to suspect that the principal and interest of the loan cannot be repaid in full on time; "Medium risk" means that the borrower is currently able to repay the principal and interest of the loan, but there are some factors that may adversely affect the repayment; "High risk" means that the borrower has obvious problems in its repayment ability and loan principal and interest cannot be repaid in full by relying on normal business income. Even if the guarantee is enforced, losses may be incurred.

Financial investments

	31 December 2019			
	Stage 1 12 months ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Low risk	5,435,395	–	–	5,435,395
Medium risk	22,310	634	–	22,944
High risk	–	637	7,774	8,411
Total carrying amount excluding accrued interest	5,457,705	1,271	7,774	5,466,750
Allowance for impairment losses on financial investments measured at amortised cost	(8,932)	(134)	(3,636)	(12,702)
Allowance for impairment losses on financial investments measured at fair value through other comprehensive income	(3,580)	–	–	(3,580)

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61 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (continued)

(g) Credit exposure (continued)

Financial investments (continued)

	31 December 2018			
	Stage 1 12 months ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Low risk	4,915,168	–	–	4,915,168
Medium risk	65,689	222	–	65,911
High risk	–	3,564	2,590	6,154
Total carrying amount	4,980,857	3,786	2,590	4,987,233
Allowance for impairment losses	(7,261)	(509)	(1,155)	(8,925)

The Group classifies financial investment risk characteristics based on asset entry and internal rating changes. "Low risk" means that the issuer's initial internal rating is above the entry level, there are no reasons to suspect that the financial investment is expected to be defaulted; "Medium risk" means that although the issuer's internal rating is reduced to a certain extent, but there are not enough reasons to suspect that the financial investment is expected to be defaulted; "High risk" means that there are obvious problems may cause a default, or the financial investment indeed is defaulted.

Amounts due from banks and non-bank financial institutions

Amounts due from banks and non-bank financial institutions include deposits and placements with banks and non-bank financial institutions, and financial assets held under resale agreements of which counterparties are banks and non-bank financial institutions.

	31 December 2019			
	Stage 1 12 months ECL	**Stage 2 lifetime ECL**	**Stage 3 lifetime ECL**	**Total**
Low risk	**1,505,449**	**–**	**–**	**1,505,449**
Medium risk	**–**	**–**	**–**	**–**
High risk	**–**	**–**	**–**	**–**
Total carrying amount excluding accrued interest	**1,505,449**	**–**	**–**	**1,505,449**
Allowance for impairment losses	**(506)**	**–**	**–**	**(506)**

	31 December 2018			
	Stage 1 12 months ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Low risk	1,038,909	–	–	1,038,909
Medium risk	–	–	–	–
High risk	–	–	–	–
Total carrying amount	1,038,909	–	–	1,038,909
Allowance for impairment losses	(388)	–	–	(388)

The Group classifies risk characteristics of amounts due from banks and non-bank financial institutions based on asset entry and internal rating changes. "Low risk" means that the issuer's initial internal rating is above the entry level, there are no reasons to suspect that the amount due from banks and non-bank financial institutions is expected to be defaulted; "Medium risk" means that although the issuer's internal rating is reduced to a certain extent, but there are not enough reasons to suspect that the amount due from banks and non-bank financial institutions is expected to be defaulted; "High risk" means that there are obvious problems may cause a default, or the amount due from banks and non-bank financial institutions indeed is defaulted.

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61 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (continued)

(h) Distribution of amounts due from banks and non-bank financial institutions in terms of credit quality is as follows:

	31 December 2019	31 December 2018
Credit impaired	–	1
Allowances for impairment losses	–	(1)
Subtotal	–	–
Neither overdue nor impaired		
– grades A to AAA	1,254,603	958,266
– grades B to BBB	20,384	14,103
– unrated	230,462	61,345
Accrued interest	3,673	5,195
Total	1,509,122	1,038,909
Allowances for impairment losses	(506)	(388)
Subtotal	1,508,616	1,038,521
Total	1,508,616	1,038,521

Amounts neither overdue nor impaired are analysed above according to the Group's internal credit ratings. Unrated amounts due from banks and non-bank financial institutions include amounts due from a number of banks and non-bank financial institutions for which the Group has not assigned internal credit ratings.

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61 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (continued)

(i) Distribution of debt investments analysed by rating

The Group adopts a credit rating approach to manage the credit risk of the debt investment portfolio held. The ratings are obtained from Bloomberg Composite, or major rating agencies where the issuers of the debt investments are located. The carrying amounts of the debt investments analysed by the rating agency designations as at the end of the reporting period are as follows:

	31 December 2019					
	Unrated	AAA	AA	A	Lower than A	Total
Credit impaired						
– Banks and non-bank financial institutions	350	–	–	–	–	350
– Enterprises	6,010	–	–	–	1,901	7,911
Total	6,360	–	–	–	1,901	8,261
Allowances for impairment losses						(3,636)
Subtotal						4,625
Neither overdue nor impaired						
– Government	1,480,381	2,743,166	6,183	17,255	16,633	4,263,618
– Central banks	24,117	3,643	11,496	1,555	–	40,811
– Policy banks	746,166	5,301	2,217	26,873	–	780,557
– Banks and non-bank financial institutions	220,609	183,944	13,147	37,359	9,833	464,892
– Enterprises	96,967	299,767	55,165	26,402	4,764	483,065
Total	2,568,240	3,235,821	88,208	109,444	31,230	6,032,943
Allowances for impairment losses						(9,066)
Subtotal						6,023,877
Total						6,028,502

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

61 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (continued)

(i) Distribution of debt investments analysed by rating (continued)

	31 December 2018					
	Unrated	AAA	AA	A	Lower than A	Total
Credit impaired						
– Banks and non-bank financial institutions	344	–	–	–	–	344
– Enterprises	2,246	–	–	–	–	2,246
Total	2,590	–	–	–	–	2,590
Allowances for impairment losses						(1,155)
Subtotal						1,435
Neither overdue nor impaired						
– Government	1,512,484	2,186,322	13,049	20,556	25,719	3,758,130
– Central banks	16,362	4,549	16,735	853	400	38,899
– Policy banks	764,358	3,160	2,901	21,313	–	791,732
– Banks and non-bank financial institutions	291,519	135,189	10,795	40,327	7,729	485,559
– Enterprises	238,441	262,728	14,652	19,278	5,465	540,564
Total	2,823,164	2,591,948	58,132	102,327	39,313	5,614,884
Allowances for impairment losses						(5,680)
Subtotal						5,609,204
Total						5,610,639

(j) Credit risk arising from the Group's derivative exposures

The majority of the Group's derivative transactions with domestic customers are hedged back-to-back with overseas banks and non-bank financial institutions. The Group is exposed to credit risk both in respect of the domestic customers and the overseas banks and non-bank financial institutions. The Group manages this risk by monitoring this exposure on a regular basis.

(k) Settlement risk

The Group's activities may give rise to settlement risk at the time of the settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of an entity to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions, the Group mitigates this risk by conducting settlements through a settlement or clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations.

(l) Sensitivity analysis

The allowance for impairment losses is sensitive to the inputs used in internally developed models, macroeconomic variables in the forward-looking forecasts, and other factors considered when applying expert credit judgement. Changes in these inputs, assumptions, models, and judgements would have an impact on the recognition of significant increase in credit risk and the measurement of ECLs.

(i) Sensitivity analysis of segmentation

The allowance for credit losses of performing financial assets consists of an aggregate amount of Stage 1 and Stage 2 probability-weighted ECLs which are twelve-month ECLs and lifetime ECLs, respectively. A significant increase in credit risk since initial recognition will result in financial assets transferring from Stage 1 to Stage 2. The following table presents the impact of ECLs from the second year to the end of the lifetime for financial assets in Stage 2.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

61 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (continued)

(l) Sensitivity analysis (continued)

(i) Sensitivity analysis of segmentation (continued)

	31 December 2019		
	12 months credit loss of all performing financial assets	**Impact of lifetime**	**Current ECL**
Performing loans	**320,003**	**12,904**	**332,907**
Performing financial investments	**12,515**	**131**	**12,646**

	31 December 2018		
	12 months credit loss of all performing financial assets	Impact of lifetime	Current ECL
Performing loans	267,782	9,457	277,239
Performing financial investments	7,266	504	7,770

(ii) Sensitivity analysis of macroeconomic variables

The Group has carried out sensitivity analysis of benchmark core economic factors such as GDP. As at 31 December 2019, when the core economic factors in the neutral scenario are up or down by 10%, the ECLs of financial assets will not change by more than 5% (As at 31 December 2018: not change by more than 5%).

(2) Market risk

Market risk is the risk of loss, in respect of the Group's on and off-balance sheet activities, arising from adverse movements in market rates including interest rates, foreign exchange rates, commodity prices and stock prices. Market risk arises from both the Group's trading and non-trading businesses. A trading book consists of positions in financial instruments and commodities held either with trading intent or in order to hedge other elements of the trading book. Non-trading book records those financial instruments and commodities which are not included in the trading book.

The Group continues to improve market risk management system. The Market Risk Management Department is responsible for leading the establishment of market risk management policies and rules, developing the market risk measurement tools, monitoring and reporting the trading market risk and related daily work. The Asset and Liability Management Department (the "ALM") is responsible for managing non-trading interest rate risk, exchange rate risk and the size and structure of the assets and liabilities in response to structural market risk. The Financial Market Department and Financial Market Trading Center manage the Bank's RMB and foreign currency investment portfolios, conducts proprietary and customer-driven transactions, as well as implementing market risk management policies and rules. The Audit Department is responsible for regularly performing independent audits of the reliability and effectiveness of the processes constituting the risk management system.

The Group's interest rate risk mainly comprises repricing risk and basis risk arising from mismatch of term structure and pricing basis of assets and liabilities. The Group uses multiple tools such as repricing gap analysis, sensitivity analysis on net interest income, scenario analysis and stress testing, etc. to monitor the interest rate risk periodically.

The Group's foreign exchange exposures mainly comprise exposures from foreign currency portfolios within treasury proprietary investments in debt securities and money market placements, and currency exposures from its overseas business. The Group manages its foreign exchange exposures by spot foreign exchange transactions and by matching its foreign currency denominated assets with corresponding liabilities in the same currency, and also uses derivatives in the management of its own foreign currency asset and liability portfolios and structural positions.

The Group is also exposed to market risk in respect of its customer driven derivative portfolio and manages this risk by entering into back-to-back hedging transactions with overseas banks and non-bank financial institutions.

The Group considers that the market risk arising from stock prices in respect of its investment portfolios is minimal.

The Group monitors market risk separately in respect of trading portfolios and non-trading portfolios. Trading portfolios include exchange rate and interest rate derivatives as well as trading securities. The historical simulation model for the Value-at-Risk ("VaR") analysis is a major tool used by the Bank to measure and monitor the market risk of its trading portfolio. 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.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

61 RISK MANAGEMENT (CONTINUED)

(2) Market risk (continued)

(a) VaR analysis

VaR is a technique which estimates the potential losses that could occur on risk positions taken, due to movements in market interest rates, foreign exchange rates and other market prices over a specified time horizon and at a given level of confidence. The Risk Management Department calculates interest rates, foreign exchange rates and commodity prices VaR for the Bank's trading portfolio. By reference to historical movements in interest rates, foreign exchange rates and commodity prices, the Risk Management Department calculates VaR on a daily basis for the trading portfolio and monitors it regularly. VaR is calculated at a confidence level of 99% and with a holding period of one day.

A summary of the VaR of the Bank's trading portfolio as at the end of the reporting period and during the respective years is as follows:

		2019			
	Note	As at 31 December	Average	Maximum	Minimum
VaR of trading portfolio		**253**	**302**	**341**	**227**
Of which:					
– Interest rate risk		**59**	**85**	**117**	**57**
– Foreign exchange risk	(i)	**262**	**298**	**361**	**234**
– Commodity risk		**4**	**12**	**31**	**–**

		2018			
		As at 31 December	Average	Maximum	Minimum
VaR of trading portfolio		327	179	336	92
Of which:					
– Interest rate risk		85	59	104	32
– Foreign exchange risk	(i)	323	176	332	77
– Commodity risk		–	6	39	–

(i) The VaR in relation to bullion is included in foreign exchange risk above.

VaR for each risk factor is the independently derived largest potential loss in a specific holding period and at a certain confidence level due to fluctuations solely in that risk factor. The individual VaRs are not added up to the total VaR as there is diversification effect due to correlation amongst the risk factors.

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based give rise to some limitations, including the following:

– A 1-day holding period assumes that it is possible to hedge or dispose of positions within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period;

– A 99 percent confidence level does not reflect losses that may occur beyond this level. Within the model used, there is 1 percent probability that losses could exceed the VaR;

– VaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day;

– The use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature; and

– The VaR measure is dependent upon the Bank's position and the volatility of market prices. The VaR of an unchanged position reduces if the market price volatility declines and vice versa.

61 RISK MANAGEMENT (CONTINUED)

(2) Market risk (continued)

(b) Net interest income sensitivity analysis

In monitoring interest rate risk on its overall non-derivative financial assets and liabilities, the Bank regularly measures its future net interest income sensitivity to an increase or decrease in market interest rates (assuming no asymmetrical movement in yield curves and a constant financial position). An incremental 100 basis points parallel fall or rise in all yield curves, other than that applicable to balances with central banks, would increase or decrease annualised net interest income of the Group by RMB35,183 million (as at 31 December 2018: RMB32,453 million). Had the impact of yield curves movement for demand deposits from customers been excluded, the annualised net interest income of the Group would decrease or increase by RMB77,716 million (as at 31 December 2018: RMB69,138 million).

The above interest rate sensitivity is for illustration purposes only and is assessed based on simplified assumptions. The figures here indicate estimated net interest income movements under various predicted yield curve scenarios and are subject to the Bank's current interest rate exposures. However, the possible risk management measures that can be undertaken by the interest risk management department or related business departments to mitigate interest rate risk have not been taken into account. In practice, the departments that manage the interest rate risk strive to reduce loss arising from the risk while increasing the net income. These figures are estimated on the assumption that the interest rates on various maturities will move within similar ranges, and therefore do not reflect the potential net interest income changes in the event that interest rates on some maturities may change and others remain unchanged. Moreover, the above estimations are based on other simplified assumptions, including that all positions will be held to maturity and rolled over upon maturity.

(c) Interest rate repricing gap analysis

Interest rate risk refers to the risk where the market interest rates, term structure and other factors may experience unfavourable fluctuations which impact the overall profitability and fair value resulting in losses to the Bank. The key determinants of the Group's interest rate risk arises from the mismatch between the maturity periods of the assets and liabilities, and inconsistent pricing basis, resulting in re-pricing risk and basis risk.

The ALM is responsible for regularly monitoring the interest rate risk positions and measuring the interest rate re-pricing gap. The main reason for measuring the interest rate re-pricing gap is to assist in analysing the impact of interest rate changes on net interest income.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

61 RISK MANAGEMENT (CONTINUED)

(2) Market risk (continued)

(c) *Interest rate repricing gap analysis (continued)*

The following tables indicate the average interest rate ("AIR") for the respective periods, and the expected next repricing dates (or maturity dates whichever are earlier) for the assets and liabilities of the Group as at the end of the reporting period.

		31 December 2019						
	Note	Average interest rate (i)	Non-interest-bearing	Within three months	Between three months and one year	Between one and five years	More than five years	Total
Assets								
Cash and deposits with central banks		1.48%	140,579	2,480,431	–	–	–	2,621,010
Deposits and placements with banks and non-bank financial institutions		2.53%	–	786,464	156,770	7,566	7	950,807
Financial assets held under resale agreements		2.46%	–	557,809	–	–	–	557,809
Loans and advances to customers	(ii)	4.49%	32,032	9,064,628	5,236,907	133,635	73,465	14,540,667
Investments	(iii)	3.62%	198,917	446,844	741,615	2,706,502	2,130,716	6,224,594
Others			541,374	–	–	–	–	541,374
Total assets		3.88%	912,902	13,336,176	6,135,292	2,847,703	2,204,188	25,436,261
Liabilities								
Borrowings from central banks		3.27%	–	98,793	450,026	614	–	549,433
Deposits and placements from banks and non-bank financial institutions		2.42%	–	1,732,057	433,752	20,269	8,173	2,194,251
Financial liabilities measured at fair value through profit or loss		2.96%	16,750	174,019	90,828	–	–	281,597
Financial assets sold under repurchase agreements		2.89%	–	111,111	1,480	2,067	–	114,658
Deposits from customers		1.57%	104,332	12,540,537	2,438,017	3,274,102	9,305	18,366,293
Debt securities issued		3.46%	–	375,884	435,756	263,561	1,374	1,076,575
Others			618,327	–	–	–	–	618,327
Total liabilities		1.76%	739,409	15,032,401	3,849,859	3,560,613	18,852	23,201,134
Asset-liability gap		2.12%	173,493	(1,696,225)	2,285,433	(712,910)	2,185,336	2,235,127

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

61 RISK MANAGEMENT (CONTINUED)

(2) Market risk (continued)

(c) Interest rate repricing gap analysis (continued)

		31 December 2018						
	Note	Average interest rate (i)	Non-interest-bearing	Within three months	Between three months and one year	Between one and five years	More than five years	Total
Assets								
Cash and deposits with central banks		1.53%	119,043	2,513,820	–	–	–	2,632,863
Deposits and placements with banks and non-bank financial institutions		3.34%	5,050	664,234	159,581	7,811	–	836,676
Financial assets held under resale agreements		2.85%	126	201,719	–	–	–	201,845
Loans and advances to customers	(ii)	4.34%	36,798	8,324,410	4,827,130	118,889	58,203	13,365,430
Investments	(iii)	3.75%	193,041	644,118	815,599	2,428,596	1,641,557	5,722,911
Others			462,968	–	–	–	–	462,968
Total assets		3.82%	817,026	12,348,301	5,802,310	2,555,296	1,699,760	23,222,693
Liabilities								
Borrowings from central banks		3.21%	8,947	205,692	338,978	775	–	554,392
Deposits and placements from banks and non-bank financial institutions		2.72%	10,970	1,325,178	424,822	80,644	6,083	1,847,697
Financial liabilities measured at fair value through profit or loss		3.42%	22,977	233,450	165,395	9,512	–	431,334
Financial assets sold under repurchase agreements		2.87%	154	24,045	1,268	4,611	687	30,765
Deposits from customers		1.39%	233,879	11,289,878	3,365,791	2,210,178	8,952	17,108,678
Debt securities issued		3.62%	4,905	289,858	197,857	259,087	24,078	775,785
Others			482,448	–	–	–	–	482,448
Total liabilities		1.64%	764,280	13,368,101	4,494,111	2,564,807	39,800	21,231,099
Asset-liability gap		2.18%	52,746	(1,019,800)	1,308,199	(9,511)	1,659,960	1,991,594

(i) Average interest rate represents the ratio of interest income/expense to average interest bearing assets/liabilities.

(ii) For loans and advances to customers, the "within three months" category includes overdue amounts (net of allowances for impairment losses) of RMB22,430 million as at 31 December 2019 (as at 31 December 2018: RMB59,455 million).

(iii) Investments include financial assets measured at financial assets measured at fair value through profit or loss, financial assets measured at amortised cost, financial assets measured at fair value through other comprehensive income and long-term equity investments, etc.

(d) Currency risk

The Group's foreign exchange exposures mainly comprise exposures that arise from the foreign currency proprietary investments of the treasury business and currency exposures originated by the Group's overseas businesses.

The Group manages currency risk by spot and forward foreign exchange transactions and by matching its foreign currency denominated assets with corresponding liabilities in the same currency, and also uses derivatives (principally foreign exchange swaps and cross currency swaps) in the management of its own foreign currency asset and liability portfolios and structural positions.

The Group actively manages foreign currency exposures by minimising foreign exchange risk by business lines. Therefore, the net exposure is not sensitive to exchange rate fluctuations and the potential impact to the pre-tax profits and other comprehensive income of the Group is not material.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

61 RISK MANAGEMENT (CONTINUED)

(2) Market risk (continued)

(d) Currency risk (continued)

The currency exposures of the Group's assets and liabilities as at the end of the reporting period are as follows:

		31 December 2019			
	Note	RMB	USD (RMB equivalent)	Others (RMB equivalent)	Total
Assets					
Cash and deposits with central banks		2,387,072	98,576	135,362	2,621,010
Deposits and placements with banks and non-bank financial institutions	(i)	1,100,346	291,044	117,226	1,508,616
Loans and advances to customers		13,569,939	544,790	425,938	14,540,667
Investments	(ii)	5,937,817	187,177	99,600	6,224,594
Others		447,504	60,323	33,547	541,374
Total assets		23,442,678	1,181,910	811,673	25,436,261
Liabilities					
Borrowings from central banks		494,047	27,704	27,682	549,433
Deposits and placements from banks and non-bank financial institutions	(iii)	1,713,236	436,808	158,865	2,308,909
Financial liabilities measured at fair value through profit or loss		263,310	16,339	1,948	281,597
Deposits from customers		17,550,909	504,298	311,086	18,366,293
Debt securities issued		640,246	307,218	129,111	1,076,575
Others		594,429	13,183	10,715	618,327
Total liabilities		21,256,177	1,305,550	639,407	23,201,134
Long position		2,186,501	(123,640)	172,266	2,235,127
Net notional amount of derivatives		(241,245)	272,552	(26,584)	4,723
Credit commitments		2,578,126	340,934	166,747	3,085,807

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

61 RISK MANAGEMENT (CONTINUED)

(2) Market risk (continued)

(d) Currency risk (continued)

		31 December 2018			
	Note	RMB	USD (RMB equivalent)	Others (RMB equivalent)	Total
Assets					
Cash and deposits with central banks		2,412,254	116,273	104,336	2,632,863
Deposits and placements with banks and non-bank financial institutions	(i)	800,852	198,616	39,053	1,038,521
Loans and advances to customers		12,390,275	545,594	429,561	13,365,430
Investments	(ii)	5,452,573	174,263	96,075	5,722,911
Others		395,762	48,020	19,186	462,968
Total assets		21,451,716	1,082,766	688,211	23,222,693
Liabilities					
Borrowings from central banks		503,669	33,184	17,539	554,392
Deposits and placements from banks and non-bank financial institutions	(iii)	1,433,725	309,123	135,614	1,878,462
Financial liabilities measured at fair value through profit or loss		408,623	20,972	1,739	431,334
Deposits from customers		16,347,860	442,304	318,514	17,108,678
Debt securities issued		438,158	230,548	107,079	775,785
Others		463,483	14,590	4,375	482,448
Total liabilities		19,595,518	1,050,721	584,860	21,231,099
Long position		1,856,198	32,045	103,351	1,991,594
Net notional amount of derivatives		(244,071)	270,379	(14,750)	11,558
Credit commitments		2,538,090	188,121	122,513	2,848,724

(i) Including financial assets held under resale agreements.

(ii) Please refer to Note 61(2)(c)(iii) for the scope of investments.

(iii) Including financial assets sold under repurchase agreements.

61 RISK MANAGEMENT (CONTINUED)

(3) Liquidity risk

The Board assumes the ultimate responsibility for liquidity risk management, authorises its special committees to discharge relevant duties, and reviews and approves the liquidity risk strategy and risk appetite. The senior management carries out the liquidity risk strategy set by the Board, and organises the implementation of the liquidity risk management activities. The board of supervisors supervises and evaluates the performance of the Board and the senior management in the liquidity risk management. The asset & liability management department leads in the Bank's daily liquidity risk management, and forms an executive system together with the business management departments and branches to perform specific duties in liquidity risk management. The subsidiaries assume the primary responsibility for their own liquidity risk management.

The Group's objective for liquidity risk management is to ensure the security of its payment and settlement, and the overall strategy features prudence, decentralisation, coordination and diversification. Liquidity risk arises from such major factors and events as a significant drop in liquidation of current assets, a massive outflow of wholesale and retail deposits, falling availability of wholesale and retail financing, shorter financing periods, increasing financing costs, significant adverse changes in market liquidity and a sudden breakdown of the Bank's payment and settlement system. In light of the regulatory requirements, external macro environment and the Bank's business development, the head office formulates approaches to liquidity risk identification, measurement and monitoring, sets out risk limit management criteria, carries out intra-day liquidity management, conducts stress testing at the group level regularly, and reviews and assesses contingency plans.

The Group conducted quarterly stress testing on its liquidity risk in order to gauge its risk tolerance in unlikely extreme scenarios and other adverse scenarios. It improved its liquidity risk stress testing methods in accordance with regulatory and internal management requirements. The results of stress testing show that under different stress scenarios, the Group's liquidity risk is under control.

The Group adopts liquidity indicator analysis, remaining maturity analysis and undiscounted cash flow analysis to measure the liquidity risk.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

61 RISK MANAGEMENT (CONTINUED)

(3) Liquidity risk (continued)

(a) *Maturity analysis*

The following tables provide an analysis of the assets and liabilities of the Group based on the remaining periods to repayment as at the end of the reporting period:

	31 December 2019							
	Indefinite	Repayable on demand	Within one month	Between one and three months	Between three months and one year	Between one and five years	More than five years	Total
Assets								
Cash and deposits with central banks	2,160,625	459,467	–	918	–	–	–	2,621,010
Deposits and placements with banks and non-bank financial institutions	–	107,976	494,082	178,400	158,868	11,474	7	950,807
Financial assets held under resale agreements	–	–	556,268	1,541	–	–	–	557,809
Loans and advances to customers	65,019	736,746	465,482	671,619	2,960,503	3,450,610	6,190,688	14,540,667
Investments								
– Financial assets measured at fair value through profit or loss	171,984	43,619	48,539	57,976	160,471	98,657	94,115	675,361
– Financial assets measured at amortised cost	–	–	41,285	83,481	395,356	1,703,305	1,516,869	3,740,296
– Financial assets measured at fair value through other comprehensive income	6,031	–	43,664	75,244	199,948	949,217	523,480	1,797,584
– Long-term equity investments	11,353	–	–	–	–	–	–	11,353
Others	292,931	84,349	10,194	35,032	33,431	18,635	66,802	541,374
Total assets	2,707,943	1,432,157	1,659,514	1,104,211	3,908,577	6,231,898	8,391,961	25,436,261
Liabilities								
Borrowings from central banks	–	–	77,689	21,104	450,026	614	–	549,433
Deposits and placements from banks and non-bank financial institutions	–	1,152,774	335,362	205,743	441,916	45,373	13,083	2,194,251
Financial liabilities measured at fair value through profit or loss	–	16,750	110,908	63,111	90,828	–	–	281,597
Financial assets sold under repurchase agreements	–	–	106,571	4,540	1,480	2,067	–	114,658
Deposits from customers	–	10,607,372	839,045	1,026,419	2,467,053	3,414,049	12,355	18,366,293
Debt securities issued								
– Certificates of deposit issued	–	–	93,813	210,838	387,447	18,072	–	710,170
– Bonds issued	–	–	5,130	8,070	26,217	88,021	1,374	128,812
– Subordinated bonds issued	–	–	–	–	2,310	79,975	–	82,285
– Eligible Tier 2 capital bonds issued	–	–	–	1,174	38,343	115,791	–	155,308
Others	7,921	224,194	53,369	46,777	186,296	21,952	77,818	618,327
Total liabilities	7,921	12,001,090	1,621,887	1,587,776	4,091,916	3,785,914	104,630	23,201,134
Net gaps	2,700,022	(10,568,933)	37,627	(483,565)	(183,339)	2,445,984	8,287,331	2,235,127
Notional amount of derivatives								
– Interest rate contracts	–	–	45,899	68,259	212,359	191,131	18,097	535,745
– Exchange rate contracts	–	–	876,973	724,591	2,014,465	108,229	2,748	3,727,006
– Other contracts	–	–	51,898	19,239	14,012	635	–	85,784
Total	–	–	974,770	812,089	2,240,836	299,995	20,845	4,348,535

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

61 RISK MANAGEMENT (CONTINUED)

(3) Liquidity risk (continued)

(a) *Maturity analysis (continued)*

	31 December 2018							
	Indefinite	Repayable on demand	Within one month	Between one and three months	Between three months and one year	Between one and five years	More than five years	Total
Assets								
Cash and deposits with central banks	2,177,053	454,640	–	1,170	–	–	–	2,632,863
Deposits and placements with banks and non-bank financial institutions	–	82,941	492,206	93,405	160,187	7,937	–	836,676
Financial assets held under resale agreements	–	–	201,103	742	–	–	–	201,845
Loans and advances to customers	70,252	717,226	475,109	567,815	2,799,488	3,203,135	5,532,405	13,365,430
Investments								
– Financial assets measured at fair value through profit or loss	85,036	31,322	76,537	104,992	227,632	144,658	61,040	731,217
– Financial assets measured at amortised cost	–	–	82,489	57,223	274,510	1,704,067	1,154,225	3,272,514
– Financial assets measured at fair value through other comprehensive income	3,294	–	18,383	48,472	246,776	888,772	505,481	1,711,178
– Long-term equity investments	8,002	–	–	–	–	–	–	8,002
Others	252,935	50,974	14,966	27,156	52,093	16,831	48,013	462,968
Total assets	2,596,572	1,337,103	1,360,793	900,975	3,760,686	5,965,400	7,301,164	23,222,693
Liabilities								
Borrowings from central banks	–	–	99,813	109,258	344,546	775	–	554,392
Deposits and placements from banks and non-bank financial institutions	–	929,855	246,048	152,645	427,102	83,943	8,104	1,847,697
Financial liabilities measured at fair value through profit or loss	–	18,839	148,784	87,018	167,065	9,628	–	431,334
Financial assets sold under repurchase agreements	–	–	23,189	918	1,274	4,694	690	30,765
Deposits from customers	–	10,372,640	873,288	926,854	2,545,389	2,368,005	22,502	17,108,678
Debt securities issued								
– Certificates of deposit issued	–	–	66,392	133,875	155,634	16,458	–	372,359
– Bonds issued	–	–	–	16	13,669	94,526	4,095	112,306
– Subordinated bonds issued	–	–	–	28,952	35,742	82,278	–	146,972
– Eligible Tier 2 capital bonds issued	–	–	–	–	2,011	121,709	20,428	144,148
Others	485	162,924	47,670	47,416	174,763	1,389	47,801	482,448
Total liabilities	485	11,484,258	1,505,184	1,486,952	3,867,195	2,783,405	103,620	21,231,099
Net gaps	2,596,087	(10,147,155)	(144,391)	(585,977)	(106,509)	3,181,995	7,197,544	1,991,594
Notional amount of derivatives								
– Interest rate contracts	–	–	64,199	47,984	96,775	82,458	10,906	302,322
– Exchange rate contracts	–	–	1,203,631	872,879	2,738,985	127,182	4,763	4,947,440
– Other contracts	–	–	33,130	31,688	22,014	2,493	–	89,325
Total	–	–	1,300,960	952,551	2,857,774	212,133	15,669	5,339,087

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

61 RISK MANAGEMENT (CONTINUED)

(3) Liquidity risk (continued)

(b) Contractual undiscounted cash flow

The following tables provide an analysis of the contractual undiscounted cash flow of the non-derivative financial liabilities and off-balance sheet credit commitments of the Group as at the end of the reporting period. The Group's expected cash flows on these instruments may vary significantly from this analysis.

	31 December 2019							
	Carrying amount	Gross cash outflow	Repayable on demand	Within one month	Between one and three months	Between three months and one year	Between one and five years	More than five years
Non-derivative financial liabilities								
Borrowings from central banks	549,433	560,382	–	77,946	21,243	460,579	614	–
Deposits and placements from banks and non-bank financial institutions	2,194,251	2,210,456	1,152,774	335,747	207,065	450,499	49,939	14,432
Financial liabilities measured at fair value through profit or loss	281,597	295,086	16,750	117,134	68,828	92,374	–	–
Financial assets sold under repurchase agreements	114,658	114,988	–	106,595	4,558	1,612	2,223	–
Deposits from customers	18,366,293	18,892,932	10,608,196	854,625	1,057,288	2,573,077	3,785,830	13,916
Debt securities issued								
– Certificates of deposit issued	710,170	712,285	–	94,028	211,272	388,251	18,734	–
– Bonds issued	128,812	136,205	–	5,254	8,313	28,335	92,686	1,617
– Subordinated bonds issued	82,285	92,315	–	–	–	6,068	86,247	–
– Eligible Tier 2 capital bonds issued	155,308	179,255	–	–	1,917	42,938	134,400	–
Other non-derivative financial liabilities	371,367	374,864	73,448	40,290	31,445	144,112	15,339	70,230
Total	22,954,174	23,568,768	11,851,168	1,631,619	1,611,929	4,187,845	4,186,012	100,195
Off-balance sheet loan commitments and credit card commitments (Note)		1,531,436	1,071,444	17,382	18,278	116,854	133,533	173,945
Guarantees, acceptances and other credit commitments (Note)		1,554,371	–	266,135	199,086	624,246	433,275	31,629

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

61 RISK MANAGEMENT (CONTINUED)

(3) Liquidity risk (continued)

(b) *Contractual undiscounted cash flow (continued)*

	31 December 2018							
	Carrying amount	Gross cash outflow	Repayable on demand	Within one month	Between one and three months	Between three months and one year	Between one and five years	More than five years
Non-derivative financial liabilities								
Borrowings from central banks	554,392	562,405	–	100,667	110,809	350,154	775	–
Deposits and placements from banks and non-bank financial institutions	1,847,697	1,878,423	930,363	246,832	155,573	441,916	93,123	10,616
Financial liabilities measured at fair value through profit or loss	431,334	438,124	18,839	151,389	87,702	169,994	10,200	–
Financial assets sold under repurchase agreements	30,765	32,323	–	23,209	926	1,405	5,782	1,001
Deposits from customers	17,108,678	17,367,636	10,373,070	883,249	941,884	2,615,420	2,529,230	24,783
Debt securities issued								
– Certificates of deposit issued	372,359	378,674	–	66,811	135,146	159,820	16,897	–
– Bonds issued	112,306	121,149	–	258	433	16,153	100,205	4,100
– Subordinated bonds issued	146,972	163,059	–	–	29,230	41,479	92,350	–
– Eligible Tier 2 capital bonds issued	144,148	172,588	–	–	–	8,756	142,636	21,196
Other non-derivative financial liabilities	317,810	317,810	84,604	34,266	28,583	122,706	–	47,651
Total	21,066,461	21,432,191	11,406,876	1,506,681	1,490,286	3,927,803	2,991,198	109,347
Off-balance sheet loan commitments and credit card commitments (Note)		1,380,603	1,126,654	93,138	27,583	24,320	79,865	29,043
Guarantees, acceptances and other credit commitments (Note)		1,468,121	–	226,985	176,721	442,485	591,866	30,064

Note: The off-balance sheet loan commitments and credit card commitments may expire without being drawn upon. Guarantees, acceptances and other credit commitments do not represent the amounts to be paid.

61 RISK MANAGEMENT (CONTINUED)

(4) Operational risk

Operational risk refers to the risks that resulted from flawed or erroneous internal processes, people and systems, or external events.

In 2019, the Group continuously promoted the application of management tools and system optimisation, strengthened the prevention and control of operational risk in key areas, and took multiple measures to reduce operational risk events and losses.

- Revised operational risk management policies, and enhanced the operational risk assessment of new products.
- Continuously promoted the application of management tools, such as operational loss data, self-assessment, and key risk indicators.
- Developed the system function for recording losses from non-compliance, and focused on the recording, analysis, monitoring and reporting of regulatory penalties.
- Revised the policies for incompatible positions and re-examined the manuals.
- Made arrangements for job rotations and mandatory leave for key positions. Periodically reviewed the status of implementation.
- Enhanced the code of conduct for employees, advocated integrity, accountability and diligence to strengthen operational risk prevention capabilities.
- Carried out a new round of business analysis, revised business continuity management policies and launched business continuity system.

(5) Fair value of financial instruments

(a) Valuation process, technique and input

The Board is responsible for establishing a robust internal control policy of valuation, and takes the ultimate responsibility for the adequacy and effectiveness of internal control system. The Board of Supervisors takes charge of supervising the performance of the Board and senior management. According to the requirements of the Board and the Board of Supervisors, senior management is responsible for organising and implementing the internal control system over the valuation process to ensure the effectiveness of the internal control system of valuation.

The Group has established an independent valuation process for financial assets and financial liabilities. The relevant departments are responsible for performing valuation, verifying valuation model and accounting of valuation results.

For the year ended 31 December 2019, there was no significant change in the valuation techniques or inputs used to determine fair value as compared to those used for the year ended 31 December 2018.

(b) Fair value hierarchy

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Fair value based on quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Fair value based on inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3: Fair value based on inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

61 RISK MANAGEMENT (CONTINUED)

(5) Fair value of financial instruments (continued)

(c) Financial instruments measured at fair value

(i) Fair value hierarchy

The table below analyses financial instruments, measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised:

	31 December 2019			
	Level 1	Level 2	Level 3	Total
Assets				
Positive fair value of derivatives	–	34,583	58	34,641
Loans and advances to customers				
– Loans and advances to customers measured at fair value through profit or loss	–	15,282	–	15,282
– Loans and advances to customers measured at fair value through other comprehensive income	–	492,693	–	492,693
Financial assets measured at fair value through profit or loss				
Financial assets held for trading purposes				
– Debt securities	2,059	227,887	–	229,946
– Equity instruments and funds	940	–	–	940
Financial assets designated as measured at fair value through profit or loss				
– Debt securities	774	33	8,449	9,256
– Other debt instruments	–	131,814	50,555	182,369
Other financial assets measured at fair value through profit or loss				
– Credit investments	–	1,519	4,642	6,161
– Debt securities	–	68,811	110	68,921
– Funds and others	30,695	45,027	102,046	177,768
Financial assets measured at fair value through other comprehensive income				
– Debt securities	182,323	1,609,230	–	1,791,553
– Equity instruments designated as measured at fair value through other comprehensive income	2,446	–	3,585	6,031
Total	219,237	2,626,879	169,445	3,015,561
Liabilities				
Financial liabilities measured at fair value through profit or loss				
– Financial liabilities designated as measured at fair value through profit or loss	–	279,749	1,848	281,597
Negative fair value of derivatives	–	33,724	58	33,782
Total	–	313,473	1,906	315,379

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

61 RISK MANAGEMENT (CONTINUED)

(5) Fair value of financial instruments (continued)

(c) Financial instruments measured at fair value (continued)

(i) Fair value hierarchy (continued)

	31 December 2018			
	Level 1	Level 2	Level 3	Total
Assets				
Positive fair value of derivatives	–	50,566	35	50,601
Loans and advances to customers				
– Loans and advances to customers measured at fair value through profit or loss	–	32,857	–	32,857
– Loans and advances to customers measured at fair value through other comprehensive income	–	308,368	–	308,368
Financial assets measured at fair value through profit or loss				
Financial assets held for trading purposes				
– Debt securities	1,711	217,046	–	218,757
– Equity instruments and funds	1,706	–	–	1,706
Financial assets designated as measured at fair value through profit or loss				
– Debt securities	595	–	14,314	14,909
– Other debt instruments	–	265,938	84,640	350,578
Other financial assets measured at fair value through profit or loss				
– Credit investments	–	13,004	1,253	14,257
– Debt securities	–	31,553	187	31,740
– Funds and others	28,300	27,009	43,961	99,270
Financial assets measured at fair value through other comprehensive income				
– Debt securities	187,632	1,520,252	–	1,707,884
– Equity instruments designated as measured at fair value through other comprehensive income	1,819	73	1,402	3,294
Total	221,763	2,466,666	145,792	2,834,221
Liabilities				
Financial liabilities measured at fair value through profit or loss				
– Financial liabilities designated as measured at fair value through profit or loss	–	429,706	1,628	431,334
Negative fair value of derivatives	–	48,490	35	48,525
Total	–	478,196	1,663	479,859

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

61 RISK MANAGEMENT (CONTINUED)

(5) Fair value of financial instruments (continued)

(c) Financial instruments measured at fair value (continued)

(i) Fair value hierarchy (continued)

A majority of the financial assets classified as level 2 is RMB bonds. The fair value of these bonds is determined based on the valuation results provided by China Central Depository & Clearing Co., Ltd. A majority of the financial liabilities designated as at fair value through profit or loss classified as level 2 is the fund raised from principal guaranteed wealth management products, the fair value of which is determined based on the income approach. The majority of derivatives is classified as level 2 and valued using income approach. For the valuation of financial instruments classified as level 2, all significant inputs are observable market data.

The financial asset at fair value through profit or loss classified as level 3 includes the underlying assets of principal guaranteed wealth management products, unlisted equity investments and private fund investments. These financial assets are valued using income approach and market approach, which incorporate the non-observable assumptions including discount rate, Price-to-Book ratio, etc.

For the year ended 31 December 2019 and 2018, there were no significant transfers within the fair value hierarchy of the Group.

(ii) Movements of fair value of financial instruments in level 3 of the fair value hierarchy

The following table shows a reconciliation from the opening balances to the ending balances for fair value measurement in level 3 of the fair value hierarchy:

	2019										
		Financial assets designated as measured at fair value through profit or loss		Other financial assets measured at fair value through profit or loss							
	Positive fair value of derivatives	Debt securities	Other debt instruments	Credit investments	Debt securities	Funds and others	Equity instruments designated as measured at fair value through other comprehensive income	Total assets	Financial liabilities designated as measured at fair value through profit or loss	Negative fair value of derivatives	Total liabilities
As at 1 January 2019	35	14,314	84,640	1,253	187	43,961	1,402	145,792	(1,628)	(35)	(1,663)
Total gains or losses:											
In profit or loss	23	(1,821)	(119)	53	(27)	261	–	(1,630)	(44)	(23)	(67)
In other comprehensive income	–	–	–	–	–	–	144	144	–	–	–
Purchases	–	60	313	3,929	67	65,393	2,042	71,804	(359)	–	(359)
Sales and settlements	–	(4,104)	(34,279)	(593)	(117)	(7,569)	(3)	(46,665)	183	–	183
As at 31 December 2019	58	8,449	50,555	4,642	110	102,046	3,585	169,445	(1,848)	(58)	(1,906)

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

61 RISK MANAGEMENT (CONTINUED)

(5) Fair value of financial instruments (continued)

(c) Financial instruments measured at fair value (continued)

(ii) Movements of fair value of financial instruments in level 3 of the fair value hierarchy (continued)

	2018										
		Financial assets designated as measured at fair value through profit or loss		Other financial assets measured at fair value through profit or loss							
	Positive fair value of derivatives	Debt securities	Other debt instruments	Credit investments	Debt securities	Funds and others	Equity instruments designated as measured at fair value through other comprehensive income	Total assets	Financial liabilities designated as measured at fair value through profit or loss	Negative fair value of derivatives	Total liabilities
As at 1 January 2018	99	10,164	125,395	267	1,098	19,462	623	157,108	(472)	(98)	(570)
Total gains or losses:											
In profit or loss	(17)	(135)	235	(85)	(194)	(1,106)	–	(1,302)	146	17	163
In other comprehensive income	–	–	–	–	–	–	18	18	–	–	–
Purchases	–	7,263	487,445	1,073	–	34,688	761	531,230	(1,414)	–	(1,414)
Sales and settlements	(47)	(2,978)	(528,435)	(2)	(717)	(9,083)	–	(541,262)	112	46	158
As at 31 December 2018	35	14,314	84,640	1,253	187	43,961	1,402	145,792	(1,628)	(35)	(1,663)

In level 3 of the fair value hierarchy, total gains or losses included in profit or loss for the year in the above table are presented in net trading gain and net gain arising from investment securities.

Gains or losses on level 3 financial assets and liabilities included in the statement of comprehensive income comprise:

	2019			2018		
	Realised	**Unrealised**	**Total**	Realised	Unrealised	Total
Total gains	**17**	**(1,714)**	**(1,697)**	(741)	(398)	(1,139)

(d) Financial instruments not measured at fair value

(i) Financial assets

The Group's financial assets not measured at fair value mainly include cash and deposits with central banks, deposits and placements with banks and non-bank financial institutions, financial assets held under resale agreements, loans and advances to customers and financial assets measured at amortised cost.

Deposits with central banks, deposits and placements with banks and non-bank financial institutions and financial assets held under resale agreements

Deposits with central banks, deposits and placements with banks and non-bank financial institutions and financial assets held under resale agreements are mainly priced at market interest rates and mature within one year. Accordingly, the carrying values approximate to the fair values.

Loans and advances to customers

Majority of the loans and advances to customers measured at amortised cost are repriced at least annually to the market rate. Accordingly, their carrying values approximate to the fair values.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

61 RISK MANAGEMENT (CONTINUED)

(5) Fair value of financial instruments (continued)

(d) Financial instruments not measured at fair value (continued)

(i) Financial assets (continued)

Financial assets measured at amortised cost

The following table shows the carrying values and the fair values of financial assets measured at amortised cost as at 31 December 2019 and 2018 which are not presented in the statement of financial position at their fair values.

	31 December 2019					31 December 2018				
	Carrying value	**Fair value**	**Level 1**	**Level 2**	**Level 3**	Carrying value	Fair value	Level 1	Level 2	Level 3
Financial assets measured at amortised cost	**3,740,296**	**3,815,857**	**51,585**	**3,619,569**	**144,703**	3,272,514	3,272,774	47,794	3,156,789	68,191
Total	**3,740,296**	**3,815,857**	**51,585**	**3,619,569**	**144,703**	3,272,514	3,272,774	47,794	3,156,789	68,191

(ii) Financial liabilities

The Group's financial liabilities not measured at fair value mainly include borrowings from central banks, deposits and placements from banks and non-bank financial institutions, financial assets sold under repurchase agreements, deposits from customers, and debt securities issued. The fair value of subordinated bonds and the eligible Tier 2 capital bonds issued as at 31 December 2019 was RMB246,083 million (as at 31 December 2018: RMB293,466 million) and the carrying value was RMB237,593 million (as at 31 December 2018: RMB291,104 million), and the carrying values of other financial liabilities approximated to their fair values as at the end of the reporting period. The Group uses observable inputs to measure the fair values of subordinated bonds and eligible Tier 2 capital bonds issued, and classified them as the Level 2 of the fair value hierarchy.

(6) 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 an election, financial assets and financial liabilities will be settled on a gross basis. However, each party to the master netting arrangements or similar agreements will have the option to settle all such amounts on a net basis in the event of default of the other party. These financial assets and financial liabilities of the Group are not offset in accordance with IFRS.

As at 31 December 2019, the amounts of the financial assets and financial liabilities subject to enforceable master netting arrangements or similar agreements are not material to the Group.

(7) Insurance risk

The risk under an insurance contract is the possibility that the insured event occurs and the uncertainty in the resulting claim amount. The characteristic of an insurance contract inherently decides randomness and unpredictability of the underlying insurance risk. For insurance contracts where the theory of probability is applied to pricing and provisioning of insurance contract liabilities, the principal risk that the Group faces is that the actual claims and benefit payments exceed the carrying amount of the insurance contract liabilities.

The Group manages the uncertainty of insurance risk through its underwriting strategy and policies to diversify the underwriting risks, adequate reinsurance arrangements, and enhanced underwriting control and claim control.

The Group makes related assumptions for the insurance risks and recognises insurance contract liabilities accordingly. For long-term personal insurance contracts and short-term personal insurance contracts, insurance risk may be elevated by the uncertainty of insurance risk assumptions including assumptions on death events, relevant expenses, and interest rates. For property and casualty insurance contracts, claims are often affected by natural disasters, catastrophes, terrorist attacks and other factors. In addition, the insurance risk will be affected by the policy termination, premium reduction or policyholders' refusal of payment, that is, the insurance risk will be affected by the policyholders' behaviour and decision.

61 RISK MANAGEMENT (CONTINUED)

(8) Capital management

The Bank has implemented comprehensive capital management, covering capital management policy design, capital projecting and planning, capital calculation, internal capital assessment, capital allocation, capital motivation, restriction and conduction, capital raising, monitoring and reporting, and applications of advanced approach of capital calculation on the management of the ordinary course of the business. General principles of capital management of the Bank is to continuously retain an adequate capital level, retain a certain margin of safety and a certain level of buffer based on that all regulatory requirements have been complied, and ensure that the capital can cover all kinds of risks adequately; exercise reasonable and effective capital allocation and strengthen capital restraint and incentive mechanism to support the strategic planning effectively and to restrict and conduct the business so as to increase the capital efficiency and return level continuously; tamp capital strength, and retain relatively high capital quality by achieving capital supplement with priority to the internal accumulation and utilising various capital instruments reasonably to optimise capital structure; continuously develop the advanced approach of capital management on the applications in the business management such as credit policies, credit approval and pricing.

Capital adequacy ratio is a reflection of the Group's ability to maintain a stable operation and resist adverse risks. In accordance with the CBRC's "Capital Rules for Commercial Banks (Provisional)" and relevant regulations, commercial banks should meet the minimum capital requirements from 1 January 2013. The Common Equity Tier 1 ratio should be at or above a minimum of 5%, Tier 1 ratio at or above a minimum of 6% and the total capital ratio at or above a minimum of 8%. Besides, capital conservation buffer requirements and additional buffer requirements of Global Systemically Important Banks should also be met. If a countercyclical buffer is required or the Pillar 2 capital requirement is raised by the regulator to a specific commercial bank, the minimum requirements should be met within the transitional period.

The Group timely monitors, analyses and reports capital adequacy ratios, assesses if the capital management objectives have been met and exercises effective management of capital adequacy ratio. The Group adopts various measures such as controlling asset growth, adjusting the structure of risk assets, increasing internal capital supply and raising capital through external channels, to ensure that the Common Equity Tier 1 ratio, Tier 1 ratio and total capital ratio of the Group are in full compliance with regulatory requirements and meet internal management requirements. This helps to insulate against potential risks as well as support healthy business developments. The Group now fully complies with all regulatory requirements in this respect.

The Group's capital planning has taken the regulatory requirements, the Group's development strategy and risk appetite into consideration, and based on those factors the Group projects the capital usage and need.

The capital raising management of the Group involves reasonable utilisation of various capital instruments to ensure that both external regulatory and internal capital management objectives are met, taking into account capital planning and operating environment. This helps to optimise the Group's capital structure.

In April 2014, the CBRC has officially approved the implementation of the advanced approach of capital management by the Bank. In this approach, the Bank has elected to use foundation internal rating based ("IRB") approach for corporate risk exposure which is compliant with regulatory requirements, IRB approach for retail risk exposure, internal model approach for market risk and standardised approach for operational risk exposure.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

61 RISK MANAGEMENT (CONTINUED)

(8) Capital management (continued)

The Group's capital adequacy ratio calculated in accordance with the "Capital Rules for Commercial Banks (Provisional)" issued by the CBRC as at the end of the reporting period are as follows:

	Note	31 December 2019	31 December 2018
Common Equity Tier 1 ratio	(a)(b)(c)	**13.88%**	13.83%
Tier 1 ratio	(a)(b)(c)	**14.68%**	14.42%
Total capital ratio	(a)(b)(c)	**17.52%**	17.19%
Common Equity Tier 1 capital			
– Qualifying common share capital		**250,011**	250,011
– Capital reserve		**134,511**	134,511
– Surplus reserve		**249,178**	223,231
– General reserve		**314,152**	279,627
– Retained earnings		**1,116,273**	989,113
– Non-controlling interest given recognition in Common Equity Tier 1 capital		**3,535**	2,744
– Others	(d)	**32,573**	19,836
Regulatory adjustments for Common Equity Tier 1 capital			
– Goodwill	(e)	**2,615**	2,572
– Other intangible assets (excluding land use rights)	(e)	**3,971**	3,156
– Cash flow hedge reserve		**(239)**	53
– Investments in common equity of financial institutions being controlled but outside the scope of consolidation		**3,910**	3,902
Additional Tier 1 capital			
– Directly issued qualifying additional Tier 1 instruments including related premium		**119,627**	79,636
– Non-controlling interest given recognition in Additional Tier 1 capital		**89**	84
Tier 2 capital			
– Directly issued qualifying Tier 2 instruments including related premium		**201,653**	206,615
– Provisions in Tier 2	(f)	**226,102**	172,788
– Non-controlling interest given recognition in Tier 2 capital		**141**	133
Common Equity Tier 1 capital after regulatory adjustments	(g)	**2,089,976**	1,889,390
Tier 1 capital after regulatory adjustments	(g)	**2,209,692**	1,969,110
Total capital after regulatory adjustments	(g)	**2,637,588**	2,348,646
Risk-weighted assets	(h)	**15,053,291**	13,659,497

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

61 RISK MANAGEMENT (CONTINUED)

(8) Capital management (continued)

Notes:

(a) From the first half year of 2014, the Group has elected the advanced approach to calculate capital adequacy ratio and implemented the parallel period rules.

(b) The Common Equity Tier 1 ratio is calculated by dividing the Common Equity Tier 1 Capital after deduction by risk-weighted assets. Tier 1 ratio is calculated by dividing the Tier 1 Capital after deduction by risk-weighted assets. Total capital ratio is calculated by dividing the total capital after deduction by risk-weighted assets.

(c) The scope for calculating capital adequacy ratio of the Group includes all the domestic branches and subsidiaries in the financial sector (excluding CCB Life).

(d) As at 31 December 2019 and 2018, others include other comprehensive income (including foreign exchange reserve).

(e) Both balances of goodwill and other intangible assets (excluding land use right) are the net amounts after deducting relevant deferred tax liabilities.

(f) From the first half year of 2014, eligible excessive loan provisions were measured based on the advanced approach and implemented parallel period rules.

(g) Common Equity Tier 1 capital after regulatory adjustments is calculated by netting off the corresponding deduction items from the Common Equity Tier 1 capital. Tier 1 capital after regulatory adjustments is calculated by netting off the corresponding deduction items from the Tier 1 capital. Total capital after regulatory adjustments is calculated by netting off the corresponding deduction items from the total capital.

(h) According to the rules of advanced approach, risk-weighted assets include credit risk-weighted assets, market risk-weighted assets, operational risk-weighted assets and excess risk-weighted assets due to the application of capital floor.

62 STATEMENT OF FINANCIAL POSITION AND STATEMENT OF CHANGES IN EQUITY OF THE BANK

	31 December 2019	31 December 2018
Assets:		
Cash and deposits with central banks	**2,609,597**	2,619,762
Deposits with banks and non-bank financial institutions	**368,495**	463,059
Precious metals	**46,169**	33,928
Placements with banks and non-bank financial institutions	**586,245**	354,876
Positive fair value of derivatives	**32,091**	47,470
Financial assets held under resale agreements	**551,985**	183,161
Loans and advances to customers	**14,052,500**	12,869,443
Financial investments		
Financial assets measured at fair value through profit or loss	**388,350**	529,223
Financial assets measured at amortised cost	**3,646,480**	3,206,630
Financial assets measured at fair value through other comprehensive income	**1,710,424**	1,614,375
Long-term equity investments	**69,290**	50,270
Investments in consolidated structured entities	**111,113**	161,638
Fixed assets	**138,898**	140,865
Land use rights	**13,400**	13,443
Intangible assets	**3,504**	2,690
Deferred tax assets	**68,597**	55,217
Other assets	**202,191**	147,305
Total assets	**24,599,329**	22,493,355

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

62 STATEMENT OF FINANCIAL POSITION AND STATEMENT OF CHANGES IN EQUITY OF THE BANK (CONTINUED)

	31 December 2019	31 December 2018
Liabilities:		
Borrowings from central banks	549,339	554,392
Deposits from banks and non-bank financial institutions	1,658,501	1,410,847
Placements from banks and non-bank financial institutions	417,963	323,535
Financial liabilities measured at fair value through profit or loss	279,700	429,595
Negative fair value of derivatives	32,710	47,024
Financial assets sold under repurchase agreements	93,194	8,407
Deposits from customers	18,024,561	16,795,736
Accrued staff costs	34,584	32,860
Taxes payable	82,164	74,110
Provisions	40,334	36,130
Debt securities issued	1,001,304	702,038
Deferred tax liabilities	42	6
Other liabilities	217,263	141,985
Total liabilities	22,431,659	20,556,665

	31 December 2019	31 December 2018
Equity:		
Share capital	250,011	250,011
Other equity instruments		
Preference Shares	79,636	79,636
Perpetual Bonds	39,991	–
Capital reserve	135,109	135,109
Other comprehensive income	33,527	21,539
Surplus reserve	249,178	223,231
General reserve	306,686	272,867
Retained earnings	1,073,532	954,297
Total equity	2,167,670	1,936,690
Total liabilities and equity	24,599,329	22,493,355

Approved and authorised for issue by the Board of Directors on 27 March 2020.

Liu Guiping	**Kenneth Patrick Chung**	**Carl Walter**
Vice chairman, executive director and president	*Independent non-executive director*	*Independent non-executive director*

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

62 STATEMENT OF FINANCIAL POSITION AND STATEMENT OF CHANGES IN EQUITY OF THE BANK (CONTINUED)

	Share capital	Other equity instruments: Preference shares	Other equity instruments: Perpetual bonds	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Total equity
As at 1 January 2019	250,011	79,636	–	135,109	21,539	223,231	272,867	954,297	1,936,690
Movements during the year	–	–	39,991	–	11,988	25,947	33,819	119,235	230,980
(1) Total comprehensive income for the year	–	–	–	–	11,988	–	–	259,466	271,454
(2) Changes in share capital									
i Capital injection by other equity instruments holders	–	–	39,991	–	–	–	–	–	39,991
(3) Profit distribution									
i Appropriation to surplus reserve	–	–	–	–	–	25,947	–	(25,947)	–
ii Appropriation to general reserve	–	–	–	–	–	–	33,819	(33,819)	–
iii Dividends to ordinary shareholders	–	–	–	–	–	–	–	(76,503)	(76,503)
iv Dividends to preference shareholders	–	–	–	–	–	–	–	(3,962)	(3,962)
As at 31 December 2019	250,011	79,636	39,991	135,109	33,527	249,178	306,686	1,073,532	2,167,670

	Share capital	Other equity instruments-Preference shares	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Total equity
As at 1 January 2018	250,011	79,636	135,109	(14,120)	198,613	254,864	827,423	1,731,536
Movements during the year	–	–	–	35,659	24,618	18,003	126,874	205,154
(1) Total comprehensive income for the year	–	–	–	35,659	–	–	246,184	281,843
(2) Profit distribution								
i Appropriation to surplus reserve	–	–	–	–	24,618	–	(24,618)	–
Ii Appropriation to general reserve	–	–	–	–	–	18,003	(18,003)	–
iii Dividends to ordinary shareholders	–	–	–	–	–	–	(72,753)	(72,753)
iv Dividends to preference shareholders	–	–	–	–	–	–	(3,936)	(3,936)
As at 31 December 2018	250,011	79,636	135,109	21,539	223,231	272,867	954,297	1,936,690

63 EVENTS AFTER THE REPORTING PERIOD

Impact assessment of the Coronavirus Disease

Since the outbreak of Coronavirus Disease 2019 ("COVID-19") in January 2020, mainland China, other countries and regions have adopted prevention and control measures against the pandemic. The Group has duly implemented various policies issued by the Central Government, as well as requirements of the Notice on Further Enhancing Financial Support for the Prevention and Control of the Novel Coronavirus Pneumonia Outbreak, which was jointly published by the PBOC, the MOF, the CBIRC, the CSRC and the State Administration of Foreign Exchange, and strengthened financial support for the prevention and control of the pandemic. The COVID-19 has affected the operation of businesses in certain areas and industries to varying degrees. This in turn may affect the quality or the yields of the Group's credit assets and other financial assets, the extent of which will depend on factors including evolvement of the pandemic, macro policies, resumption of work and activities in enterprises. The ECL at 31 December 2019 had been estimated based on a range of forecast economic conditions as at that date. The impact of this pandemic on macroeconomic forecasts and other key indicators will be reflected in the Group's estimation of ECL in 2020. The Group has closely monitored the evolvement of COVID-19, and has started assessment of its impact on the Group's future financial position and performance. As at the date of this report, the assessment is still in progress.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

64 COMPARATIVE FIGURES

Certain comparative figures have been adjusted to confirm with the presentation and disclosures in the current period.

65 ULTIMATE PARENT

As stated in Note 1, the immediate and ultimate parents of the Group are Huijin and CIC, respectively.

66 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

Up to the date of issue of the financial statements, the IASB has issued the following amendments, new standards and interpretations which are relevant to the Group. These amendments, new standards and interpretations are not yet effective for the year ended 31 December 2019 and have not been adopted in the financial statements.

Standards		Effective for annual periods beginning on or after
(1)	Amendments to IAS 1 and IAS 8	1 January 2020
(2)	Amendments to IFRS 3	1 January 2020
(3)	Amendments to IFRS 9,IAS 39 and IFRS 7	1 January 2020
(4)	IFRS 17 "Insurance Contracts"	1 January 2021
(5)	Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"	Effective date has been deferred indefinitely

Except for IFRS 17, the Group anticipates that the adoption of the new standards and amendments will not have a significant impact on the Group's consolidated financial statements.

(1) Amendments to IAS 1 and IAS 8 "Definition of Material"

Amendments to IAS 1 and IAS 8 provide a new definition of materiality. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions made by the primary users of general purpose financial statements based on those financial statements. The amendments clarify that materiality depends on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

(2) Amendments to IFRS 3 "Definition of A Business"

IFRS 3 Amendments clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. A business can exist without including all the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business.

(3) Amendments to IFRS 9, IAS 39 and IFRS 7 "Interest Rate Benchmark Reform"

The amendments to IFRS 9, IAS 39 and IFRS 7 modify some specific hedge accounting requirements. During the period of uncertainty arising from phasing-out of interest-rate benchmarks with an alternative nearly risk-free interest rate ("RFR"), the entities that apply these hedge accounting requirements can assume that the interest-rate benchmarks on which the hedged cash flows and cash flows of the hedging instrument are based are not altered as a result of interest-rate benchmark reform. The amendments must be applied retrospectively.

66 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE (CONTINUED)

(4) IFRS 17 "Insurance Contracts"

IFRS 17 was issued in May 2017 as replacement for IFRS 4 Insurance Contracts. It requires a current measurement model where estimates are re-measured during 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 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 Group is currently assessing the impact of IFRS 17 upon initial application.

(5) Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"

The narrow-scope amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" clarify the accounting treatment for sales or contribution of assets between an investor and its associates or joint ventures. They confirm that the accounting treatment depends on whether the non-monetary assets sold or contributed to an associate or joint venture constitute a "business" (as defined in IFRS 3 "Business Combinations").

Where the non-monetary assets constitute a business, the investor will recognise the full gain or loss on the sale or contribution of assets. If the assets do not meet the definition of a business, the gain or loss is recognised by the investor only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments apply prospectively.

EY 安永

22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

To the Shareholders of China Construction Bank Corporation

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

OPINION

We have audited the consolidated financial statements of China Construction Bank Corporation (the "Bank") and its subsidiaries (the "Group") set out on pages 172 to 302, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and relevant notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Expected credit losses for loans and advances to customers measured at amortised cost The Group determines and measures expected credit losses for loans and advances to customers measured at amortised cost, in accordance with IFRS 9 "Financial Instruments". Significant judgements and assumptions are involved in the measurement of expected credit losses, for example: • Significant increase in credit risk – Criteria for determining whether significant increase in credit risk has occurred are highly judgemental, and may have a significant impact on expected credit losses for loans and advances to customers measured at amortised cost with longer outstanding maturities; • Models and parameters – Complex models, numerous inputs and parameters are used to measure expected credit losses, involving plenty of management judgements and assumptions; • Forward-looking information – Macroeconomic forecasts are developed, and impacts on expected credit losses are considered for probability weighted multiple economic scenarios; • Whether financial assets are credit-impaired – The determination of credit impairment requires consideration of multiple factors, and measurement of expected credit losses depends on estimates of future cash flows. As at 31 December 2020, loans and advances to customers measured at amortised cost amounted to RMB16,476,817 million, accounting for 58.57% of total assets. Allowances for impairment losses of such loans and advances totalled RMB556,063 million. As expected credit losses measurement involves many significant judgements and assumptions, we consider expected credit losses for loans and advances to customers measured at amortised cost a key audit matter. *Relevant disclosures are included in Note 4(3), Note 4(26)b, Note 25 and Note 61(1) to the financial statements.*	We evaluated and tested the design and operating effectiveness of key controls over credit granting, post approval credit management, loan credit rating system, collateral management, loan principal repayment and interest payment deferrals and loan impairment assessment, including relevant data quality and information systems. We adopted a risk-based sampling approach in our loan review procedures. We assessed the debtors' repayment capacity and evaluated the Group's loan grading, taking into consideration post-lending inspection reports, debtors' financial information, collateral valuation reports and other available information. With the support of our modelling specialists, we evaluated and tested the expected credit loss model, key parameters, and management's significant judgements and assumptions, mainly focusing on the following aspects: (1) Expected credit loss model: • Taking into account macroeconomic changes, impact of COVID-19 outbreak and government support measures, we assessed the reasonableness of the expected credit loss model methodology and related parameters, including probability of default, loss given default, risk exposure, and whether there was a significant increase in credit risk; • We assessed the forward-looking information used by management to determine expected credit losses, including the forecasts of macroeconomic variables and the assumptions and weightings of multiple macroeconomic scenarios; • We assessed the reasonableness of management's determination of credit impairment. For credit-impaired loans and advances, we analysed the amount, timing and probability of management's estimated future cash flows, especially the recoverable cash flows from collateral. (2) Design and operating effectiveness of key controls: • With the support of our IT audit specialists, we evaluated and tested the data and processes used to determine expected credit loss, including loan business data, internal credit rating data, macroeconomic data, as well as the computational logic, inputs and system interfaces of the impairment assessment system; • We evaluated and tested key controls over the expected credit loss model, including approval of model changes, ongoing monitoring of model performance, model validation and parameter calibration. We evaluated and tested the design and operating effectiveness of internal controls related to disclosures of credit risk exposures and expected credit losses.

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Consolidation assessment and disclosures of structured entities	
The Group holds interests in many different structured entities as a result of its business activities in financial investment, asset management and credit asset transfer. Such interests in structured entities include wealth management products ("WMPs"), funds, asset management plans, trust plans, and asset-backed securities. As at 31 December 2020, within unconsolidated structured entities, the balance of non-principal guaranteed WMPs issued by the Group totalled RMB2,167,886 million, and the balance of trust plans, funds and asset management plans established by the Group totalled RMB3,068,334 million. The Group needs to comprehensively consider the power it possesses, its exposure to variable returns, and its ability to use its power to affect returns to determine whether it has control over such structured entities, and therefore whether it should include them in the scope of consolidation. The assessment of the Group's control over structured entities involves significant judgements on factors such as the purpose and design of structured entities, the Group's ability to direct relevant activities, direct and indirect beneficial interests and returns, performance fees, and benefits received or losses incurred from providing credit enhancement or liquidity support. Comprehensive analysis of these factors and concluding on whether the Group has control involve significant management judgements and estimates. In view of the materiality and the complexity of management judgements, we consider consolidation assessment and disclosures of structured entities a key audit matter. *Relevant disclosures are included in Note 4(1), Note 4(26)f, Note 26(1)a and Note 28 to the financial statements.*	We evaluated and tested the design and operating effectiveness of key controls over the Group's assessment of whether it controls a structured entity. We assessed the Group's analysis and conclusions on whether it controls structured entities based on the Group's analysis on its power over these structured entities, and the magnitude and variability of the variable returns from its involvement with structured entities. We assessed whether the Group has legal or constructive obligations to ultimately absorb losses from structured entities through review of contracts, which included examining, on a sampling basis, whether the Group has provided liquidity support or credit enhancement to structured entities. We evaluated and tested the design and operating effectiveness of internal controls related to disclosures of unconsolidated structured entities.
Valuation of financial instruments	
The fair values of the Group's financial instruments measured at fair value are determined either by active market quotes or valuation techniques. Valuation techniques are used to determine the fair value of financial instruments that do not have quoted prices in active markets, such as investments in unlisted equity, private fund investments and certain debt investments. These techniques may involve the use of significant unobservable inputs requiring assumptions and estimates based on management's subjective judgements. Valuation results can vary significantly under different valuation techniques or assumptions. As at 31 December 2020, the carrying amount of the Group's financial assets measured at fair value totalled RMB2,783,390 million, accounting for 9.89% of total assets. Given the higher uncertainty in valuation results, financial instruments whose fair value measurement involves significant unobservable inputs are categorised as level 3 within the fair value hierarchy. As at 31 December 2020, RMB173,484 million or 6.23% of financial assets measured at fair value were categorised as Level 3. Given the materiality of the balance and the significant judgements involved in fair value measurement of Level 3 financial instruments, we consider valuation of financial instruments a key audit matter. *Relevant disclosures are included in Note 4(3), Note 4(26)c, Note 23, Note 25, Note 26 and Note 61(5) to the consolidated financial statements.*	We evaluated and tested the design and operating effectiveness of key controls over the valuation of financial instruments. We selected samples and evaluated the valuation techniques, inputs and assumptions applied by the Group, including comparison with valuation techniques commonly used in the market and industry peers, validation of observable inputs using external market data, and comparison with valuation outcomes obtained from various pricing sources. For financial instruments whose valuations were calculated using significant unobservable inputs, as in the case of investments in unlisted equity, private fund investments and certain debt investments, we involved our valuation specialists to assess the valuation model for such financial instruments, performed independent valuations on selected samples and compared the valuation results with those of the Group. We evaluated and tested the design and operating effectiveness of internal controls related to disclosures of fair value.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Bank are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Bank are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Bank are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Bank either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Bank are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- 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.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Choi Kam Cheong, Geoffrey.

Ernst & Young

Certified Public Accountants

Hong Kong

26 March 2021

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2020 (EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

	Note	2020	2019
Interest income		**989,509**	909,885
Interest expense		**(413,600)**	(372,819)
Net interest income	6	**575,909**	537,066
Fee and commission income		**131,512**	126,667
Fee and commission expense		**(16,930)**	(15,769)
Net fee and commission income	7	**114,582**	110,898
Net trading gain	8	**4,313**	9,120
Dividend income	9	**3,182**	1,184
Net gain arising from investment securities	10	**5,765**	9,093
Net gain on derecognition of financial assets measured at amortised cost	11	**4,649**	3,359
Other operating income, net:			
– Other operating income		**47,874**	36,127
– Other operating expense		**(42,050)**	(28,846)
Other operating income, net	12	**5,824**	7,281
Operating income		**714,224**	678,001
Operating expenses	13	**(188,574)**	(188,132)
		525,650	489,869
Credit impairment losses	14	**(193,491)**	(163,000)
Other impairment losses	15	**3,562**	(521)
Share of profits of associates and joint ventures		**895**	249
Profit before tax		**336,616**	326,597
Income tax expense	18	**(63,037)**	(57,375)
Net profit		**273,579**	269,222

The notes on pages 179 to 302 form part of these financial statements.

FOR THE YEAR ENDED 31 DECEMBER 2020 (EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

	Note	2020	2019
Other comprehensive income:			
(1) Other comprehensive income that will not be reclassified to profit or loss			
Remeasurements of post-employment benefit obligations		**479**	199
Fair value changes of equity instruments designated as measured at fair value through other comprehensive income		**(279)**	444
Others		**24**	59
Subtotal		**224**	702
(2) Other comprehensive income that may be reclassified subsequently to profit or loss			
Fair value changes of debt instruments measured at fair value through other comprehensive income		**(9,108)**	9,005
Allowances for credit losses of debt instruments measured at fair value through other comprehensive income		**(762)**	1,624
Reclassification adjustments included in profit or loss due to disposals		**(491)**	(175)
Net loss on cash flow hedges		**(61)**	(292)
Exchange difference on translating foreign operations		**(6,720)**	2,682
Subtotal		**(17,142)**	12,844
Other comprehensive income for the year, net of tax		**(16,918)**	13,546
Total comprehensive income for the year		**256,661**	282,768
Net profit attributable to:			
Equity shareholders of the Bank		**271,050**	266,733
Non-controlling interests		**2,529**	2,489
		273,579	269,222
Total comprehensive income attributable to:			
Equity shareholders of the Bank		**254,112**	280,268
Non-controlling interests		**2,549**	2,500
		256,661	282,768
Basic and diluted earnings per share (in RMB Yuan)	19	**1.06**	1.05

The notes on pages 179 to 302 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2020 (EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

	Note	**31 December 2020**	31 December 2019
Assets:			
Cash and deposits with central banks	20	**2,816,164**	2,621,010
Deposits with banks and non-bank financial institutions	21	**453,233**	419,661
Precious metals		**101,671**	46,169
Placements with banks and non-bank financial institutions	22	**368,404**	531,146
Positive fair value of derivatives	23	**69,029**	34,641
Financial assets held under resale agreements	24	**602,239**	557,809
Loans and advances to customers	25	**16,231,369**	14,542,001
Financial investments	26		
Financial assets measured at fair value through profit or loss		**577,952**	675,361
Financial assets measured at amortised cost		**4,505,243**	3,740,296
Financial assets measured at fair value through other comprehensive income		**1,867,458**	1,797,584
Long-term equity investments	27	**13,702**	11,353
Fixed assets	29	**172,505**	170,740
Land use rights	30	**14,118**	14,738
Intangible assets	31	**5,279**	4,502
Goodwill	32	**2,210**	2,809
Deferred tax assets	33	**92,950**	72,314
Other assets	34	**238,728**	194,127
Total assets		**28,132,254**	25,436,261
Liabilities:			
Borrowings from central banks	36	**781,170**	549,433
Deposits from banks and non-bank financial institutions	37	**1,943,634**	1,672,698
Placements from banks and non-bank financial institutions	38	**349,638**	521,553
Financial liabilities measured at fair value through profit or loss	39	**254,079**	281,597
Negative fair value of derivatives	23	**81,956**	33,782
Financial assets sold under repurchase agreements	40	**56,725**	114,658
Deposits from customers	41	**20,614,976**	18,366,293
Accrued staff costs	42	**35,460**	39,075
Taxes payable	43	**84,161**	86,635
Provisions	44	**54,114**	42,943
Debt securities issued	45	**940,197**	1,076,575
Deferred tax liabilities	33	**1,551**	457
Other liabilities	46	**545,240**	415,435
Total liabilities		**25,742,901**	23,201,134

The notes on pages 179 to 302 form part of these financial statements.

AS AT 31 DECEMBER 2020 (EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

	Note	31 December 2020	31 December 2019
Equity:			
Share capital	47	250,011	250,011
Other equity instruments	48		
Preference shares		59,977	79,636
Perpetual bonds		39,991	39,991
Capital reserve	49	134,263	134,537
Other comprehensive income	50	15,048	31,986
Surplus reserve	51	275,995	249,178
General reserve	52	350,228	314,389
Retained earnings	53	1,239,295	1,116,529
Total equity attributable to equity shareholders of the Bank		2,364,808	2,216,257
Non-controlling interests		24,545	18,870
Total equity		2,389,353	2,235,127
Total liabilities and equity		28,132,254	25,436,261

Approved and authorised for issue by the Board of Directors on 26 March 2021.

Wang Jiang	**Kenneth Patrick Chung**	**Graeme Wheeler**
Vice Chairman, executive director and president	*Independent non-executive director*	*Independent non-executive director*

The notes on pages 179 to 302 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2020 (EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

	Attributable to equity shareholders of the Bank									
		Other equity instruments								
	Share capital	Preference shares	Perpetual bonds	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Non-controlling interests	Total equity
As at 1 January 2020	250,011	79,636	39,991	134,537	31,986	249,178	314,389	1,116,529	18,870	2,235,127
Movements during the year	–	(19,659)	–	(274)	(16,938)	26,817	35,839	122,766	5,675	154,226
(1) Total comprehensive income for the year	–	–	–	–	(16,938)	–	–	271,050	2,549	256,661
(2) Changes in share capital										
i Capital injection by other shareholders	–	–	–	–	–	–	–	–	3,607	3,607
ii Capital deduction by other equity instruments holders	–	(19,659)	–	(274)	–	–	–	–	–	(19,933)
iii Disposal of subsidiaries	–	–	–	–	–	–	–	–	(15)	(15)
iv Change in shareholdings in subsidiaries	–	–	–	–	–	–	–	–	46	46
(3) Profit distribution										
i Appropriation to surplus reserve	–	–	–	–	–	26,817	–	(26,817)	–	–
ii Appropriation to general reserve	–	–	–	–	–	–	35,839	(35,839)	–	–
iii Dividends to ordinary shareholders	–	–	–	–	–	–	–	(80,004)	–	(80,004)
iv Dividends to other equity instruments holders	–	–	–	–	–	–	–	(5,624)	–	(5,624)
v Dividends to non-controlling interests holders	–	–	–	–	–	–	–	–	(512)	(512)
As at 31 December 2020	250,011	59,977	39,991	134,263	15,048	275,995	350,228	1,239,295	24,545	2,389,353

	Attributable to equity shareholders of the Bank									
		Other equity instruments								
	Share capital	Preference shares	Perpetual bonds	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Non-controlling interests	Total equity
As at 1 January 2019	250,011	79,636	–	134,537	18,451	223,231	279,725	990,872	15,131	1,991,594
Movements during the year	–	–	39,991	–	13,535	25,947	34,664	125,657	3,739	243,533
(1) Total comprehensive income for the year	–	–	–	–	13,535	–	–	266,733	2,500	282,768
(2) Changes in share capital										
i Capital injection by other shareholders	–	–	–	–	–	–	–	–	1,980	1,980
ii Capital injection by other equity instruments holders	–	–	39,991	–	–	–	–	–	–	39,991
iii Change in shareholdings in subsidiaries	–	–	–	–	–	–	–	–	(196)	(196)
(3) Profit distribution										
i Appropriation to surplus reserve	–	–	–	–	–	25,947	–	(25,947)	–	–
ii Appropriation to general reserve	–	–	–	–	–	–	34,664	(34,664)	–	–
iii Dividends to ordinary shareholders	–	–	–	–	–	–	–	(76,503)	–	(76,503)
iv Dividends to other equity instruments holders	–	–	–	–	–	–	–	(3,962)	–	(3,962)
v Dividends to non-controlling interests holders	–	–	–	–	–	–	–	–	(545)	(545)
As at 31 December 2019	250,011	79,636	39,991	134,537	31,986	249,178	314,389	1,116,529	18,870	2,235,127

The notes on pages 179 to 302 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2020 (EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

	Note	2020	2019
Cash flows from operating activities			
Profit before tax		**336,616**	326,597
Adjustments for:			
– Credit impairment losses	14	**193,491**	163,000
– Other impairment losses	15	**(3,562)**	521
– Depreciation and amortisation	13	**26,182**	23,927
– Interest income from impaired financial assets		**(3,924)**	(3,092)
– Revaluation loss/(gain) on financial instruments at fair value through profit or loss		**640**	(2,456)
– Share of profits of associates and joint ventures		**(895)**	(249)
– Dividend income	9	**(3,182)**	(1,184)
– Unrealised foreign exchange loss		**14,133**	2,548
– Interest expense on bonds issued		**16,669**	16,418
– Interest income from investment securities and net income from disposal		**(215,482)**	(198,282)
– Net loss/(gain) on disposal of fixed assets and other long-term assets		**319**	(42)
		361,005	327,706
Changes in operating assets:			
Net (increase)/decrease in deposits with central banks and with banks and non-bank financial institutions		**(392,876)**	183,478
Net decrease/(increase) in placements with banks and non-bank financial institutions		**144,967**	(94,096)
Net increase in loans and advances to customers		**(1,917,020)**	(1,297,965)
Net increase in financial assets held under resale agreements		**(45,096)**	(355,758)
Net decrease/(increase) in financial assets held for trading purposes		**58,482**	(10,791)
Net increase in other operating assets		**(77,590)**	(75,045)
		(2,229,133)	(1,650,177)
Changes in operating liabilities:			
Net increase/(decrease) in borrowings from central banks		**230,568**	(2,132)
Net (decrease)/increase in placements from banks and non-bank financial institutions		**(152,997)**	96,186
Net increase in deposits from customers and from banks and non-bank financial institutions		**2,519,121**	1,461,277
Net (decrease)/increase in financial assets sold under repurchase agreements		**(56,949)**	83,663
Net (decrease)/increase in certificates of deposit issued		**(156,782)**	338,170
Income tax paid		**(82,457)**	(65,793)
Net decrease in financial liabilities measured at fair value through profit or loss		**(26,382)**	(149,986)
Net increase in other operating liabilities		**174,691**	142,373
		2,448,813	1,903,758
Net cash from operating activities		**580,685**	581,287

The notes on pages 179 to 302 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2020 (EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

	Note	2020	2019
Cash flows from investing activities			
Proceeds from sales and redemption of financial investments		**2,160,828**	1,504,300
Interest and dividends received		**208,372**	192,870
Proceeds from disposal of fixed assets and other long-term assets		**1,630**	2,366
Purchase of investment securities		**(2,982,229)**	(1,963,872)
Purchase of fixed assets and other long-term assets		**(25,743)**	(23,234)
Acquisition of subsidiaries, associates and joint ventures		**(4,995)**	(4,978)
Cash payment for other investing activities		**(21)**	–
Net cash used in investing activities		**(642,158)**	(292,548)
Cash flows from financing activities			
Issue of bonds		**118,103**	42,106
Cash received from issuance of other equity instruments		**–**	39,991
Cash received from subsidiaries' capital injection by non-controlling interests holders		**676**	1,980
Dividends paid		**(86,140)**	(81,010)
Repayment of borrowings		**(79,240)**	(79,052)
Interest paid on bonds issued		**(15,888)**	(18,051)
Cash payment for redemption of other equity instruments		**(19,933)**	–
Cash paid by subsidiaries for purchase of non-controlling interests holders' equity		**(44)**	(196)
Cash payment for other financing activities		**(7,494)**	(7,609)
Net cash used in financing activities		**(89,960)**	(101,841)
Effect of exchange rate changes on cash and cash equivalents		**(21,976)**	4,740
Net (decrease)/increase in cash and cash equivalents		**(173,409)**	191,638
Cash and cash equivalents as at 1 January	54	**1,052,340**	860,702
Cash and cash equivalents as at 31 December	54	**878,931**	1,052,340
Cash flows from operating activities include:			
Interest received, excluding interest income from investment securities		**770,747**	720,099
Interest paid, excluding interest expense on bonds issued		**(325,900)**	(337,478)

The notes on pages 179 to 302 form part of these financial statements.

1 COMPANY INFORMATION

The history of China Construction Bank Corporation (the "Bank") dates back to 1954, which was previously known as the People's Construction Bank of China when it was established. It was responsible for the management and distribution of government funds for construction and infrastructure related projects under the state economic plan. The People's Construction Bank of China gradually evolved into a comprehensive commercial bank following the takeover of the function of granting policy loans by China Development Bank in 1994. In 1996, the People's Construction Bank of China changed its name to China Construction Bank ("CCB"). On 17 September 2004, China Construction Bank Corporation was established in the People's Republic of China (the "PRC") as a result of a separation procedure undertaken by its predecessor, China Construction Bank. In October 2005 and September 2007, the Bank's H shares and A shares were listed on the Hong Kong Stock Exchange (Stock Code: 939) and the Shanghai Stock Exchange (Stock Code: 601939), successively. As at 31 December 2020, the Bank issued the total ordinary share capital of RMB250,011 million, with a par value of RMB1.00 per share.

The Bank obtained its finance permit No.B0004H111000001 from the China Banking Regulatory Commission ("CBRC") (In 2018, it was renamed as China Banking and Insurance Regulatory Commission, hereinafter referred to as the "CBIRC") of the PRC. The Bank obtained its unified social credit code No.911100001000044477 from the Beijing Administration for Industry and Commerce. The registered office of the Bank is located at No.25, Finance Street, Xicheng District, Beijing, the PRC.

The principal activities of the Bank and its subsidiaries (collectively the "Group") are the provision of corporate and personal banking services, conducting treasury business, the provision of asset management, trustee, finance leasing, investment banking, insurance and other financial services. The Group mainly operates in Mainland China and also has a number of overseas branches and subsidiaries. For the purpose of these financial statements, Mainland China refers to the PRC excluding the Hong Kong Special Administrative Region of the PRC ("Hong Kong"), the Macau Special Administrative Region of the PRC ("Macau") and Taiwan. Overseas refers to countries and regions other than Mainland China.

The Bank is under the supervision of the banking regulatory bodies empowered by the State Council of the PRC (the "State Council"). The overseas financial institutions of the Bank are required to comply with the regulatory requirements of their respective local jurisdictions. Central Huijin Investment Ltd. ("Huijin"), a wholly-owned subsidiary of China Investment Corporation ("CIC"), exercises its rights and obligations as an investor in accordance with laws on behalf of the PRC government.

These financial statements were authorised for issue by the board of directors of the Bank on 26 March 2021.

2 BASIS OF PREPARATION

The Group uses the calendar year as the accounting year, which is from 1 January to 31 December.

These financial statements comprise the Bank and its subsidiaries and the Group's interests in associates and joint ventures.

(1) Basis of measurement

These financial statements have been prepared on the historical cost basis except that: (i) financial instruments at fair value through profit or loss are measured at fair value; (ii) derivative financial instruments are measured at fair value; (iii) financial assets measured at fair value through other comprehensive income are measured at fair value; and (iv) certain non-financial assets are measured at revalued amount. The measurement basis of major assets and liabilities are further explained in Note 4.

(2) Functional and presentation currency

These financial statements are presented in RMB, unless otherwise stated, rounded to the nearest million, which is the functional currency of the domestic operations of the Group. The functional currencies of overseas branches and subsidiaries are determined in accordance with the primary economic environment in which they operate, and are translated into RMB for the preparation of these financial statements according to Note 4(2)(b).

(3) Use of estimates and judgements

The preparation of financial statements 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 expenses. Actual results may differ from these estimates.

The estimates and associated assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Judgements that have a significant effect on the financial statements and estimates with a significant risk of material adjustments in the subsequent period are discussed in Note 4(26).

3 STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB"). These financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance (Cap. 622), and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The Group has adopted the following amendments for the first time for the current year.

Amendments to IAS 1 and IAS 8	Definition of Material
Amendments to IFRS 3	Definition of a Business
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform
Amendment to IFRS 16	COVID-19-Related Rent Concessions (early adopted)

The adoption of the above amendments does not have a significant impact on the Group's consolidated financial statements.

Except for those described above, the significant accounting policies adopted by the Group for the annual financial statements are consistent with those applied in the preparation of the Group's annual financial statements for the year ended 31 December 2019.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(1) Consolidated financial statements

(a) Business combinations

The consideration transferred by the acquirer for the acquisition and the identifiable assets acquired, liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition by acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill in accordance with the accounting policies set out in Note 4(10). If this is less than the fair value of the identifiable net assets of the acquiree in the case of a bargain purchase, the difference is recognised in profit or loss.

Acquisition date mentioned above is the date that the Group effectively obtains control of the acquiree.

(b) Subsidiaries and non-controlling interests

Subsidiaries are all entities (including structured entities) over which the Bank has control. The Bank controls an entity when the Bank has the power over the entity, and is exposed to, or has the rights to the variable returns from its involvement with the entity, and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Bank. They are deconsolidated from the date that control ceases.

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements.

For the separate financial statements of the Bank, investments in subsidiaries are accounted for at cost. At initial recognition, investment in subsidiaries is measured at the cost of acquisition determined at the acquisition date when the subsidiaries are acquired through business combination or the capital injected into the subsidiaries set up by the Group. Impairment losses on investments in subsidiaries are accounted for in accordance with the accounting policies as set out in Note 4(12).

The financial results and performance of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. When preparing the consolidated financial statements, the Bank makes necessary adjustments on the accounting period and accounting policies of subsidiaries to comply with those of the Bank.

Intragroup balances and transactions, and any profits or losses arising from intragroup transactions are eliminated in full in preparing the consolidated financial statements.

The portion of a subsidiary's net assets that is attributable to equity interests that are not owned by the Bank, whether directly or indirectly through subsidiaries, is treated as non-controlling interests and presented as "non-controlling interests" in the consolidated statement of financial position within total equity. The portion of net profit or loss and other comprehensive income of subsidiaries for the year attributable to non-controlling interests is separately presented in the consolidated statement of comprehensive income as a component of the Group's net profit and other comprehensive income.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(1) Consolidated financial statements (continued)

(c) Associates and joint arrangements

An associate is an enterprise in which the Group has significant influence. 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 policy decisions.

Joint arrangement is an arrangement of which two or more parties have joint control. The classification of a joint arrangement as a joint operation or a joint venture depends upon the rights and obligations of the parties to the arrangement. Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing the control. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures.

Investments in associates or joint ventures are accounted for using the equity method in the consolidated financial statements and are initially recorded at acquisition cost, and adjusted thereafter for the post acquisition change in the Group's share of net assets of the associates or joint ventures. The Group's share of the post-acquisition, post-tax results of the associates or joint ventures for the year is recognised in the consolidated statement of comprehensive income. The Group's interest in associates or joint ventures is included from the date that significant influence or joint control commences until the date that significant influence or joint control ceases.

Profits and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's interest in the associates or joint ventures.

The Group discontinues recognising its share of net losses of the associates or joint ventures after the carrying amount of investments in associates and joint ventures together with any long-term interests that in substance form part of the Group's net investment in the associates or joint ventures are reduced to zero, except to the extent that the Group has incurred legal or constructive obligations to assume additional losses. Where the associates or joint ventures make net profits subsequently, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

(2) Translation of foreign currencies

(a) Translation of foreign currency transactions

Foreign currency transactions are, on initial recognition, translated into the functional currency at the spot exchange rates at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are translated into the functional currency at the spot exchange rates at that date. The resulting exchange differences are recognised in profit or loss. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated into functional currency using the spot exchange rates at the transaction dates. Non-monetary items denominated in foreign currencies that are measured at fair value are translated using the spot exchange rates at the dates the fair values are determined; exchange differences are recognised in profit or loss, except for the differences arising from the translation of equity instruments designated at fair value through other comprehensive income, which are recognised in other comprehensive income.

(b) Translation of financial statements denominated in foreign currencies

Foreign currency financial statements of overseas branches and subsidiaries are translated into RMB for the preparation of consolidated financial statements. At the end of each reporting period, the assets and liabilities in the financial statements denominated in foreign currencies are translated into RMB at the spot exchange rates ruling at that date. All items within equity except for retained earnings are translated at the exchange rates ruling at the dates of the initial transactions. Income and expenses in the statement of comprehensive income are translated at the weighted average exchange rates for the year. Foreign exchange differences arising from foreign operations are recognised in "other comprehensive income" in the shareholders' equity in the statement of financial position. The effect of exchange rate changes on cash is presented separately in the statement of cash flows.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(3) Financial instruments

(a) Classification

The Group classifies financial instruments into different categories based on the business model used to manage financial assets and contractual cash flow characteristics or the purposes for which the liabilities were incurred. The categories are: financial assets measured at amortised cost, financial assets measured at fair value through other comprehensive income ("FVOCI"), financial assets and liabilities measured at fair value through profit or loss ("FVPL"), and other financial liabilities.

The business model of the Group's management of financial assets refers to how the Group manages financial assets to generate cash flows. The business model determines whether the cash flow of financial assets managed by the Group is derived from contractual cash flows, sales of financial assets or both. Factors considered by the Group in determining the business model for a group of financial 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.

The characteristics of the contractual cash flow of financial assets refer to the cash flow attributes agreed in the contract of financial instruments that reflect the economic characteristics of the relevant financial assets, that is, the contractual cash flows generated by the relevant financial assets on a specific date are only for payment of the principal and the interest based on the amount of principal outstanding. Of which, principal refers to the fair value of financial assets at initial recognition. The payment of the underlying interest, where the principal is the fair value of the financial asset at the time of initial recognition, and its amount may change during the lifetime of the financial asset due to prepayment and other reasons; interest includes the time value of money, the credit risk associated with the outstanding principal amount for a specific period, and the consideration of other basic borrowing risks, costs and profits.

Financial assets measured at amortised cost

Financial assets are classified as financial assets measured at amortised cost if both of the following conditions are met: (i) the assets are managed within a business model whose objective is to hold assets in order to collect contractual cash flows; (ii) the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets measured at fair value through other comprehensive income (FVOCI)

Financial assets measured at FVOCI include debt instruments measured at FVOCI and equity instrument designated as measured at FVOCI.

Financial assets are classified as financial assets measured at FVOCI if both of the following conditions are met: (i) the assets are managed within a business model whose objective is achieved by collecting contractual cash flows and selling financial assets; (ii) the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

At inception, the Group may designate non-trading equity instruments as financial assets measured at FVOCI, and recognise dividend income in accordance with the relevant policies specified in Note 4(20)(c). Once the designation is made, it cannot be revoked.

Financial assets and liabilities measured at fair value through profit or loss (FVPL)

The Group classifies the financial assets other than financial assets measured at amortised cost and FVOCI as financial assets measured at FVPL.

Financial assets measured at FVPL include those held for trading purposes, those designated as measured at FVPL, those could not pass the solely payment of principal and interests ("SPPI") testing and the remaining equity investments which are not designated as measured at FVOCI.

Financial liabilities measured at FVPL include negative fair value of derivatives, and those designated as measured at FVPL.

Financial assets or financial liabilities are classified as held for trading if they are: (i) acquired or incurred principally for the purpose of selling or repurchasing it in the near term; (ii) part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or (iii) a derivative (except for a derivative that is a designated and effective hedging instruments or a financial guarantee contract).

At initial inception, the Group may designate financial assets as financial assets measured at FVPL if the designation can eliminate or significantly reduce accounting mismatch. Once the designation is made, it cannot be revoked.

Financial liabilities are designated as measured at FVPL upon initial recognition when: (i) the designation can eliminate or significantly reduce accounting mismatch; or (ii) the formal written file of the Group's risk management or investment strategy have clearly stated that the financial liability portfolio, or the portfolio of financial assets and financial liabilities, are managed, evaluated and reported to key management personnel on the basis of fair value. Once the designation is made, it cannot be revoked.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(3) Financial instruments (continued)

(a) Classification (continued)

Other financial liabilities

Other financial liabilities are financial liabilities other than those measured at FVPL and mainly comprise borrowings from central banks, deposits and placements from banks and non-bank financial institutions, financial assets sold under repurchase agreements, deposits from customers and debt securities issued.

(b) Derivatives and hedge accounting

The Group uses derivatives to hedge its exposure to foreign exchange and interest rate risks. Derivatives are recognised at fair value at the trade date upon initial recognition, and subsequently measured at fair value. The positive fair value is recognised as an asset while the negative fair value is recognised as a liability.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated and qualified as a hedging instrument, and if so, the nature of the item being hedged. For derivatives not designated or qualified as hedging instruments, including those that are intended to provide effective economic hedges of specific interest rate and foreign exchange risks, but not qualified for hedge accounting, changes in the fair value of these derivatives are recognised in the consolidated statement of comprehensive income.

The Group documents, at inception, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment 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. The Group assess the hedge effectiveness both at hedge inception and on an ongoing basis.

(i) Fair value hedge

Fair value hedge is a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or 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.

(ii) 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 "other comprehensive income". The ineffective portion is recognised immediately in the profit or loss.

Amounts accumulated in other comprehensive income 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 other comprehensive income at that time remains in other comprehensive income 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 other comprehensive income is immediately transferred to the profit or loss.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(3) Financial instruments (continued)

(c) Embedded derivatives

An embedded derivative is a component of a hybrid contract that also includes a non-derivative host. If a hybrid contract contains a host that is an financial asset, the embedded derivative shall not be separated from the host and shall be classified and measured as a whole.

If a hybrid contract contains a host that is not an financial asset, an embedded derivative shall be separated from the host and accounted for as a derivative if, and only if: (i) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host; (ii) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and (iii) the hybrid contract is not measured at fair value with changes in fair value recognised in profit or loss. The Group could choose to measure the separated derivative at FVPL, or designate the entire hybrid contract as at FVPL.

(d) Recognition and derecognition

All financial assets and financial liabilities are recognised in the statement of financial position, when and only when, the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset if the part being considered for derecognition meets one of the following conditions: (i) the contractual rights to receive the cash flows from the financial asset expire; (ii) the contractual rights to receive the cash flows of the financial asset have been transferred and the Group transfers substantially all the risks and rewards of ownership of the financial asset; or the Group has neither transferred nor retained substantially all the risks and rewards of ownership of the transferred credit asset, but has given up control of the credit asset;or (iii) the Group retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to the eventual recipient in an agreement that meets all the conditions of transfer of cash flows and transfers substantially all the risks and rewards of ownership of the financial asset or the Group has neither transferred nor retained substantially all the risks and rewards of ownership of the transferred credit assets, but has given up control of the credit asset.

When a financial asset is derecognised, the difference between the carrying amount of the financial asset derecognised and the consideration received, as well as the cumulative changes in fair value previously recognised in equity, is recognised in other comprehensive income.

When a financial asset is transferred, and if the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, but retains control, the Group continues to recognise the financial asset to the extent of its continuing involvement in the financial asset.

The financial liability is derecognised only when: (i) the underlying present obligation specified in the contracts is discharged, cancelled or expired, or (ii) an agreement between the Group and an existing lender to replace the original financial liability with a new financial liability with substantially different terms, or a substantial modification of the terms of an existing financial liability is accounted for as an extinguishment of the original financial liability and recognition of a new financial liability.

The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

(e) Measurement

Financial instruments are measured initially at fair value plus, in the case of a financial instrument not measured at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the instrument. Transaction costs for financial instruments measured at fair value through profit or loss are expensed immediately.

Subsequent to initial recognition, the Group measures different categories of financial assets at amortised cost, fair value through other comprehensive income or fair value through profit or loss respectively. Financial liabilities other than those measured at fair value through profit or loss are measured at amortised cost using the effective interest method.

Financial assets measured at fair value through profit or loss

Gains and losses from changes in the fair value of financial assets measured at fair value through profit or loss are recognised in profit or loss.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(3) Financial instruments (continued)

(e) Measurement (continued)

Financial liabilities measured at fair value through profit or loss

Financial liabilities measured at FVPL are measured at fair value, where the gain or loss arose are recognised in profit or loss. For the financial liabilities designated as measured at FVPL, they are accounted for in accordance with the following requirements: (i) the amount of changes in the fair value of the financial liability arising from changes in the Group's own credit risk should be included in other comprehensive income; (ii) other changes in fair value of the financial liabilities are recognised in current profit or loss. If the treatment of the impact of changes in the financial liabilities' own credit risk will create or enlarge the accounting mismatch in profit or loss in accordance with (i), the Group shall recognise the entire gain or loss of the financial liabilities (including the amount of the impact of changes in its own credit risk) in profit or loss. When the financial liabilities designated as at fair value through profit or loss is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from other comprehensive income to retained earnings.

Financial assets measured at FVOCI

The impairment losses, foreign exchange gains and losses and interest income calculated using effective interest method of financial assets measured at FVOCI are recognised in profit or loss. Besides, other changes of carrying amount are recognised in other comprehensive income.

When the debt instruments measured at FVOCI are sold, gains or losses on disposal are recognised in profit or loss. Gains or losses on disposal include those previously recognised in other comprehensive income being transferred to the profit or loss. For equity instrument investments designated as measured at FVOCI, once the designation is made, fair value gains and losses are recognised in other comprehensive income and are not subsequently reclassified to profit or loss (the changes in fair value are recognised in retained earnings on disposal). Dividends, when representing a return on such investments, continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Financial assets measured at amortised cost

The amortised cost of a financial asset should be measured with the initial recognition after the following adjustments: (i) deducting the repaid principal; (ii) adding or subtracting the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount; (iii) the loss provision for the accumulated accrual.

For financial assets measured at amortised cost, a gain or loss is recognised in profit or loss when the financial asset is derecognised or impaired, and through the amortisation process.

Effective interest rate

The effective interest rate is the rate that exactly discount estimated future cash payments or receipts through the expected lifetime of the financial asset to the carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance). The calculation does not consider expected credit losses but includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate.

The Group determines interest income based on the gross carrying amount of financial assets multiplied by the effective interest rate, except (i) for purchased or sourced financial assets that have suffered credit impairment, from the initial recognition, interest income is calculated using the financial assets' amortised cost and credit-adjusted effective interest rate; (ii) for a purchased or sourced financial asset that has not suffered credit impairment but has become credit impaired in subsequent periods, interest income is determined using the financial asset's amortised cost and the effective interest rate. If the financial instrument no longer has credit impairment due to the improvement of its credit risk in the subsequent period, and this improvement can be objectively related to an event that occurs after the application of the above provisions, interest income should be recalculated using the effective interest rate multiplied by the gross carrying amount of the financial assets.

Credit-adjusted effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial asset to the amortised cost of a financial asset that is a purchased or originated credit-impaired financial asset. When calculating the credit-adjusted effective interest rate, an entity shall estimate the expected cash flows by considering all contractual terms of the financial asset (for example, prepayment, extension, call and similar options) and initial expected credit losses.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(3) Financial instruments (continued)

(f) Impairment

At the end of the reporting period, the Group performs impairment assessment and recognised loss provisions based on expected credit loss on financial assets measured at amortised cost and FVOCI, as well as loan commitments and financial guarantee contracts.

The expected credit loss refers to the weighted average of the credit losses of financial instruments that are weighted by the risk of default. Credit loss refers to the difference between all contractual cash flows receivable from the contract and all cash flows expected to be received discounted at the original real interest rate by the Group, that is, the present value of all cash shortages. Among them, financial assets that have been purchased or sourced by the Group and have suffered credit impairment shall be discounted according to the effective interest rate of the financial assets after credit adjustments.

The Group's method of measuring expected credit losses of financial instruments reflects the following elements: (i) unbiased weighted average probability determined by the results of evaluating a range of possible outcomes; (ii) time value of money; (iii) reasonable and evidence-based information about past events, current conditions, and future economic forecasts that are available at no additional cost or effort at the end of the reporting period.

At the end of each reporting period, the Group measures the expected credit losses ("ECL") of financial instruments at different stages and recognises its loss provision and its changes in the following cases: the financial instrument is in Stage 1 if the credit risk of the financial instrument has not increased significantly since the initial recognition, and the Group measures its loss provision based on the amount of expected credit loss of the financial instrument in the next 12 months; the financial instrument is in Stage 2 if the credit risk of the financial instrument has increased significantly since the initial recognition but are not yet credit-impaired is considered to be credit-impaired and the Group measures its loss provision based on the amount of lifetime expected credit loss of the financial instrument; the financial instrument is in Stage 3 if the financial instrument has credit impaired, and the Group measures its loss provision based on the amount of lifetime expected credit loss of the financial instrument. Regardless of whether the Group's assessment of credit losses is based on a single financial instrument or a combination of financial instruments, the increase or reversal of the loss provision resulting therefrom should be included in the current profit or loss as an impairment loss or gain.

For debt instruments measured at FVOCI, the Group recognises the allowance of impairment in other comprehensive income and impairment losses or gains in profit and loss, which should not change the book value of the financial assets set out in the statement of financial position.

For loss provision measured at the amount equivalent to the lifetime expected credit loss of the financial instrument previously, if, at the end of the current reporting period, the financial instrument is no longer having significant increase in credit risk since the initial recognition, the Group measures its loss provision based on the amount of its expected credit losses for the next 12 months, and the reversal of the loss provision arising from it is recognised as an impairment gain in profit or loss for the current reporting period.

For financial assets that have been purchased or sourced for credit impairment, the Group only recognises cumulative changes in lifetime expected credit losses after initial recognition at the end of the reporting period as loss provision. At the end of each reporting period, the Group recognises the amount of the change in lifetime expected credit losses as an impairment loss or gain in current profit or loss.

(g) Write off

When the Group determines that a loan has no reasonable prospect of recovery after the Group has completed all the necessary legal or other proceedings, the loan is written off against its allowance for impairment losses. If in a subsequent period the loan written off is recovered, the amount recovered will be recognised in profit or loss through impairment losses.

(h) Modification of contracts

If the renegotiation or modification of a contract between the Group and a counterparty does not result in derecognition of the financial assets, but lead to changes in contractual cash flows, the Group assesses whether a significant increase in credit risk has occurred, based on comparing the risk of a default occurring under the revised terms as at the end of the reporting period with that as at the date of initial recognition under original terms. The gross carrying amount of the financial asset is recalculated and the related gain or loss is recognised in profit and loss. The recalculated gross carrying amount of the financial asset is determined based on the present value of the renegotiated or modified contractual cash flows discounted at the financial asset's original effective interest rate.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(3) Financial instruments (continued)

(i) Fair value measurement

If there is an active market for financial instruments, the fair value of financial instruments is based on the prices within the bid-ask spread that is most representative of fair value in the circumstances, and without any deduction for transaction costs that may occur on sales or disposals. A quoted price is from an active market where price information is readily and regularly available from an exchange, dealer, industry group or pricing service agency and that price information represents actual and regularly occurring orderly transactions.

If a quoted market price is not available, the fair value of the financial instruments is estimated using valuation techniques. Valuation techniques applied include the price used by market participants in an orderly transaction, reference to the fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. The Group selects valuation techniques that are commonly accepted by market participants for pricing the instruments and these techniques have been demonstrated to provide reliable estimates of prices obtained in actual market transactions. Periodically, the Group reviews the valuation techniques and tests them for validity.

(j) Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position when the Group has a legally enforceable right to offset the recognised amounts and the transactions are intended to be settled on a net basis, or by realising the asset and settling the liability simultaneously. 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 company or the counterparty.

(k) Securitisations

The Group securitises certain loans, which generally involves the sale of these assets to structured entities, which in turn issue securities to investors. Interests in the securitised financial assets may be retained in the form of credit enhancement or subordinated tranches, or other residual interests ("retained interests"). Gains or losses on securitisation are the difference between the carrying amount of the transferred financial assets and the consideration received (including retained interest) which is recognised in profit or loss.

(l) Financial assets held under resale agreements and financial assets sold under repurchase agreements

Financial assets held under resale agreements are transactions where the Group acquires financial assets which will be resold at a predetermined price at a future date under resale agreements. Financial assets sold under repurchase agreements are transactions where the Group sells financial assets which will be repurchased at a predetermined price at a future date under repurchase agreements.

The cash advanced or received is recognised as amounts held under resale or sold under repurchase agreements in the statement of financial position. Assets held under resale agreements are not recognised. Assets sold under repurchase agreements continue to be recognised in the statement of financial position.

The difference between the purchase and resale consideration, and that between the sale and repurchase consideration, is amortised over the period of the respective transaction using the effective interest method and is included in interest income and interest expenses respectively.

(4) Precious metals

Precious metals comprise gold and other precious metals. Precious metals that are acquired by the Group principally for trading purpose are initially recognised at fair value and re-measured at fair value less cost to sell. The changes in fair value less cost to sell are recognised in profit or loss. Precious metals that are not acquired by the Group principally for trading purpose are carried at lower of cost and net realisable value.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(5) Fixed assets

Fixed assets are assets held by the Group for the conduct of business and are expected to be used for more than one year. Construction in progress is the property and equipment under construction, which is transferred to fixed assets when ready for its intended use.

(a) Cost

Fixed assets are initially recognised at cost, except for the fixed assets and construction in progress obtained from CCB by the Bank which were recognised at the revalued amount as cost on the date of restructuring. The cost of a purchased fixed asset comprises the purchase price, related taxes, and any directly attributable expenditure for bringing the asset to working condition for its intended use. The cost of a self-constructed fixed asset comprises those expenditures necessarily incurred for bringing the asset to working condition for its intended use.

Where the individual components of an item of fixed asset have different useful lives or provide benefits to the Group in different patterns thus necessitating use of different depreciation rates or methods, they are recognised as separate fixed assets.

Subsequent costs, including the cost of replacing part of an item of fixed assets, are recognised in the carrying amount of the item if the recognition criteria are satisfied, and the carrying amount of the replaced part is derecognised. Expenditures relating to ordinary maintenance of fixed assets are recognised in profit or loss.

(b) Depreciation and impairment

Depreciation is calculated to write off to the profit or loss the cost of items of fixed assets, less their estimated residual value, if any, using the straight line method over their estimated useful lives. Impaired fixed assets are depreciated net of accumulated impairment losses. No depreciation is provided on construction in progress.

The estimated useful lives, residual value rates and annual depreciation rates of respective fixed assets are as follows:

Types of assets	Estimated useful lives	Estimated net residual value rates	Annual depreciation rates
Bank premises	30-35 years	3%	2.8%-3.2%
Equipment	3-8 years	3%	12.1%-32.3%
Others	4-11 years	3%	8.8%-24.3%

Aircraft and vessels are used for the Group's operating lease business, depreciated using straight-line method over the expected useful life of 20 to 30 years (less the years in service at the time of purchase) with the estimated residual value rate varying from 2.9% to 4.8%.

The Group reviews the estimated useful life and estimated residual value rates of a fixed asset and the depreciation method applied at least once a financial year.

Impairment losses on fixed assets are accounted for in accordance with the accounting policies as set out in Note 4(12).

(c) Disposal

Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the net disposal proceeds and the carrying amount of the fixed asset and are recognised in profit or loss on the date of retirement or disposal.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(6) Lease

Identification of leases

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset for a period of time, the Group assesses whether, throughout the period of use, the customer has both of the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset.

Assessment of the lease term

The lease term is the non-cancellable period of a lease for which the Group has the right to use an underlying asset. If the Group has an option to extend the lease, that is, the Group has the right to extend the lease, and is reasonably certain to exercise that option, the lease term also includes periods covered by an option to extend the lease. If the Group has an option to terminate the lease, that is, the Group has the right to terminate the lease, but is reasonably certain not to exercise that option, the lease term includes periods covered by an option to terminate the lease. The Group reassesses whether it is reasonably certain to exercise an extension option, purchase option, or not to exercise a termination option, upon the occurrence of either a significant event or a significant change in the circumstances that is within the control of the Group and affects whether the Group is reasonably certain to exercise an option not previously included in its determination of the lease term.

As lessee

For the accounting treatment of the Group as a lessee, see Note 4(7) and(14).

Lease modifications

Lease modification is a change in the scope of a lease, or the consideration for a lease, that was not part of the original terms and conditions of the lease, for example, adding or terminating the right to use one or more underlying assets, or extending or shortening the contractual lease term.

The Group accounts for a lease modification as a separate lease if both:

(a) the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

(b) the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, at the effective date of the lease modification the Group remeasures the lease liability by discounting the revised lease payments using a revised discount rate. The revised discount rate is determined as the interest rate implicit in the lease for the remainder of the lease term, or the lessee's incremental borrowing rate at the effective date of the modification, if the interest rate implicit in the lease cannot be readily determined.

For a lease modification that is not accounted for as a separate lease, the Group accounts for the remeasurement of the lease liability by:

(a) decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease for lease modifications that decrease the scope or term of the lease, and recognising the gain or loss relating to the partial or full termination of the lease in profit or loss; or

(b) making a corresponding adjustment to the right-of-use asset for all other lease modifications.

Lessee's incremental borrowing rate

If the interest rate implicit in the lease cannot be readily determined, the Group measures the lease liability at the present value of the lease payments discounted using the lessee's incremental borrowing rate. According to the economic environment, the Group takes the observable interest rate as the reference basis for determining the incremental borrowing rate, then adjusts the observable interest rate based on its own circumstances, underlying assets, lease terms and amounts of lease liabilities to determine the applicable incremental borrowing rate.

Short-term leases and leases of low-value assets

If the Group subleases an asset, or expects to sublease an asset, the head lease does not qualify as a lease of a low-value asset. The Group recognises lease payments on short-term leases and leases of low-value assets in the costs of the related asset or profit or loss on a straight-line basis over the lease term.

As lessor

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset, except that a lease is classified as an operating lease at the inception date. The Group, as an intermediate lessor, classifies the sublease by reference to the right-of-use asset arising from the head lease.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(6) Lease (continued)

As lessor of a finance lease

At the commencement date of the lease, the Group recognises finance lease receivable and derecognises finance lease assets. The Group presents lease receivable at an amount equal to the net investment in the lease for the initial measurement. The net investment in the lease is the sum of any unguaranteed residual value accruing to the lessor and at the commencement date of the lease the lease payments receivable by a lessor under a finance lease discounted at the interest rate implicit in the lease.

The Group recognises finance income over the lease term, based on a pattern reflecting a constant periodic rate of return on the its net investment in the lease. Variable lease payments received by the Group that are not included in the measurement of the net investment in the lease are recognised in profit or loss as incurred.

The Group accounts for a modification to a finance lease as a separate lease if both:

(a) the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

(b) the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a modification to a finance lease that is not accounted for as a separate lease, the Group accounts for the modification as follows:

(a) if the lease would have been classified as an operating lease had the modification been in effect at the inception date, the Group accounts for the lease modification as a new lease from the effective date of the modification, and measures the carrying amount of the underlying asset as the net investment in the lease immediately before the effective date of the lease modification; or

(b) if the lease would have been classified as a finance lease had the modification been in effect at the inception date, the Group accounts for the lease modification in accordance with the requirements in Note 4(3) on the contract modifications or re-negotiation.

As lessor of an operating lease

Rent income under an operating lease is recognised on a straight-line basis over the lease term, through profit or loss. Variable lease payments that are not included in the measurement of lease receivables are charged to profit or loss as incurred. The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

Sale and leaseback transactions

The Group applies the requirements in Note 4(20) to assess and determine whether the transfer of an asset is accounted for as a sale of that asset.

As lessor

If the transfer of an asset satisfies the requirements to be accounted for as a sale of the asset, the Group, as a lessor, accounts for the purchase of the asset and for the lease applying the accounting requirements set forth; and if the transfer of an asset does not satisfy the requirements to be accounted for as a sale of the asset, the Group, as a lessor, does not recognise the transferred asset and recognises a financial asset equal to the transfer proceeds. The Group accounts for the financial asset applying Note 4(3).

(7) Right-of-use assets

The right-of-use assets of the Group mainly include right to use buildings and other equipment.

At the commencement date of the lease, the Group recognises a right-of-use asset. The cost of the right-of-use asset comprises: (i) the amount of the initial measurement of the lease liability; (ii) any lease payments made at or before the commencement date of the lease less any lease incentives received; (iii) any initial direct cost incurred; and (iv) an estimate of costs incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease. The right-of-use assets are depreciated on a straight-line basis subsequently by the Group. If the Group is reasonably certain that the ownership of the underlying asset will be transferred to the Group at the end of the lease term, the Group depreciates the asset from the commencement date to the end of the useful life of the asset. Otherwise, the Group depreciates the assets from the commencement date to the earlier of the end of the useful life of the asset or the end of the lease term.

The Group remeasures the lease liability at the present value of the changed lease payments and adjusts the carrying amount of the right-of-use assets accordingly, when the carrying amount of the right-of-use asset is reduced to zero, and there is a further reduction in the measurement of the lease liability, the Group recognises the remaining amount of the remeasurement in profit or loss.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(8) Land use rights

Land use rights are initially recognised at cost. The land use rights obtained from CCB by the Bank on the date of restructuring were recorded at the revalued amount. The cost of the land use rights is amortised on a straight-line basis over their authorised useful lives, and charged to the profit or loss. Impaired land use rights are amortised net of accumulated impairment losses.

Impairment losses on land use rights are accounted for in accordance with the accounting policies as set out in Note 4(12).

(9) Intangible assets

Software and other intangible assets are initially recognised at cost. The cost less estimated residual values, if any, of the intangible assets is amortised on a straight-line basis over their useful lives, and charged to the profit or loss. Impaired intangible assets are amortised net of accumulated impairment losses.

Impairment losses on intangible assets are accounted for in accordance with the accounting policies as set out in Note 4(12).

(10) Goodwill

Goodwill represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets. Goodwill is not amortised. Goodwill arising from a business combination is allocated to each cash-generating unit ("CGU") or group of CGUs, that is expected to benefit from the synergies of the combination. The Group performs an impairment test on goodwill semi-annually.

Any excess of the Group's interest in the net fair value of the acquiree's identifiable net assets over the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree is recognised immediately in profit or loss.

On disposal of the related CGU or group of CGUs, any attributable amount of goodwill net of allowances for impairment losses, if any, is included in the calculation of the profit or loss on disposal.

Impairment loss on goodwill is accounted for in accordance with the accounting policies as set out in Note 4(12).

(11) Repossessed assets

In the recovery of impaired loans and advances, the Group may take possession of assets held as collateral through court proceedings or voluntary delivery of possession by the borrowers. Repossessed assets in the form of financial assets are recognised and presented as the appropriate class of financial assets based on the business models and contractual cash flow characteristics, and repossessed assets that are not financial assets are recognised and reported in "other assets" in the balance sheet when the Group intends to achieve an orderly realisation of the impaired assets and the Group is no longer seeking repayment from the borrower.

When using repossessed assets as compensation for losses on loans and advances to customers and interest receivable, the Group recognizes repossessed assets in the form of financial assets at fair value, and records any taxes payable, advance payment for litigation fees, tax arrears and other transaction costs incurred to obtain repossessed assets in profit or loss or into the initial book value, respectively, depending on the type of financial assets. Repossessed assets that are not financial assets are initially recognized at the fair value of the rights given up by creditors, and the Group records any taxes payable, advance payment for litigation fees, tax arrears and other transaction costs incurred to obtain the repossessed assets into the book value of repossessed assets.

Repossessed assets that are not financial assets are recognized at book value less allowances for impairment losses measured in accordance with the accounting policies as set out in Note 4(12).

(12) Allowances for impairment losses on assets

The Group determines the impairment of assets, other than the impairment of deferred tax assets and financial assets, using the following methods:

The Group assesses at the balance sheet date whether there is any indication that assets may be impaired. If any indication exists that an asset may be impaired, the Group estimates the recoverable amount of the asset.

If there is any indication that an asset may be impaired and it is not possible to estimate the recoverable amount of an individual asset, the Group determines the recoverable amount of the CGU to which the asset belongs.

CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash flows from other assets or groups of assets.

The recoverable amount of an asset (or CGU, group of CGUs) is the higher of its fair value less costs to sell and the present value of the expected future cash flows. The Group considers all relevant factors in estimating the present value of future cash flows, such as the expected future cash flows, the useful life and the discount rate.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(12) Allowances for impairment losses on assets (continued)

(a) *Testing CGU with goodwill for impairment*

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to the CGU or group of CGUs that is expected to benefit from the synergies of the combination.

A CGU or group of CGUs to which goodwill has been allocated is tested for impairment by the Group semi-annually, or whenever there is an indication that the CGU or group of CGUs are impaired, by comparing the carrying amount of the CGU or group of CGUs, including the goodwill, with the recoverable amount of the CGU or group of CGUs. At the time of impairment testing of a CGU or group of CGUs to which goodwill has been allocated, there may be an indication of an impairment of an asset within the CGU containing the goodwill. In such circumstances, the Group tests the asset for impairment first, and recognises any impairment loss for that asset before testing for impairment on the CGU or group of CGUs containing the goodwill. Similarly, there may be an indication of an impairment of a CGU within a group of CGUs containing the goodwill. In such circumstances, the entity tests the CGU for impairment first, and recognises any impairment loss for that CGU, before testing for impairment the group of CGUs to which the goodwill is allocated.

(b) *Impairment loss*

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is recognised as an impairment loss and charged to the profit or loss.

For a CGU or a group of CGUs, the amount of impairment loss firstly reduces the carrying amount of any goodwill allocated to the CGU or group of CGUs, and then reduces the carrying amount of other assets (other than goodwill) within the CGU or group of CGUs, pro rata on the basis of the carrying amount of each asset.

(c) *Reversing an impairment loss*

If, in a subsequent period, the amount of impairment loss of the non-financial asset except for goodwill decreases and the decrease can be linked objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the profit or loss. A reversal of impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior periods.

An impairment loss in respect of goodwill is not reversed.

(13) Employee benefits

Employee benefits are all forms of consideration given and compensations incurred by the Group in exchange for services rendered by employees or the termination of the employment relationship. Except for termination benefits, employee benefits are recognised as a liability in the period in which the associated services are rendered by its employees, with a corresponding increase in cost of relevant assets or the expenses in profit or loss. Where payment or settlement is deferred and the effect of discount would be material, these amounts are stated at their present values in the statement of financial position.

(a) *Post-employment benefits*

The Group divides post-employment benefit plans into defined contribution plans and defined benefit plans. Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions. Defined benefit plans are post-employment benefit plans other than defined contribution plans. For defined contribution plans, the Group pays contributions to basic retirement insurance, annuity scheme and unemployment insurance for the employees during the reporting period, while defined benefit plans are mainly supplementary retirement benefits.

Defined contribution retirement schemes

Pursuant to the relevant laws and regulations in the PRC, employees in Mainland China have joined defined contribution retirement schemes for the employees arranged by local government labour and security authorities. The Group makes contributions to the retirement schemes at the applicable rates based on the amounts stipulated by the local government organizations. The contributions are charged to the profit or loss on an accrual basis. When employees retire, the local government labour and security authorities are responsible for the payment of the basic retirement benefits to the retired employees.

Annuity contributions

In addition to the statutory provision contributions, the Bank's employees have joined the annuity scheme set up by the Bank under "CCBC Annuity Scheme" (the "scheme") in accordance with state enterprise annuity regulations. The Bank has made annuity contributions in proportion to its employees' gross wages, which are expensed in profit or loss when the contributions are made.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(13) Employee benefits (continued)

(a) *Post-employment benefits (continued)*

Supplementary retirement benefits

The Group pays supplementary retirement benefits for its employees in Mainland China who retired on or before 31 December 2003 in addition to the contributions made to statutory insurance schemes. Such supplementary retirement benefits are defined benefit plans.

The Group's obligations in respect of supplementary retirement benefits are calculated by estimating the amount of obligations that the Group is committed to pay to the employees after their retirement using actuarial techniques. At the end of each reporting period, such obligations are discounted with interest yield of government bonds with similar duration. The service cost and net interest from the supplementary retirement benefits are recognised in profit or loss, and the remeasurements are recognised in other comprehensive income.

The liability recognised in the statement of financial position in respect of supplementary retirement benefits is the present value of supplementary retirement benefit obligations at the end of the reporting period less the fair value of plan assets.

(b) *Termination benefits*

Where the Group terminates the employment relationship with employees before the end of the employment contracts or provides compensation as an offer to encourage employees to accept voluntary redundancy, a provision is recognised for the compensation arising from termination of employment relationship, with a corresponding charge to the profit or loss for the current period. An entity is required to recognise termination benefits at the earlier of when the entity can no longer withdraw an offer of those benefits and when it recognises any related restructuring costs.

(c) *Early retirement expenses*

The Group recognises the present value of all its liabilities to employees who voluntarily agreed to retire early. The early retirement benefit payments are made by the Group from the date of early retirement to the regulated retirement date. Differences arising from changes in assumptions and estimates of the present value of the liabilities are recognised in profit or loss when incurred.

(d) *Staff incentive plan*

As approved by the board of directors, for the purposes of providing incentives and rewards to eligible employees for their past services, the Group awards a specified amount of staff compensation to the staff incentive plan independently managed by a designated staff committee for those eligible participating employees. The Group recognises its contribution to the plan when it has a present legal or constructive obligation to make such payment and a reliable estimate of the obligation can be made.

(14) Lease liabilities

At the commencement date of the lease, the Group measures the lease liability at the present value of the lease payments that are not paid at that date, except for short-term leases and leases of low-value assets. In calculating the present value of the lease payments, the Group uses the interest rate implicit in the lease as the discount rate. If that rate cannot be readily determined, the Group uses the lessee's incremental borrowing rate. The Group calculates the interest expenses of the lease liability in each period during the lease term using the constant periodic rate of interest, and recognises such interest expenses in profit or loss, except those in the costs of the related asset as required. Variable lease payments that are not included in the measurement of the lease liabilities are recognised in profit or loss as incurred, except those in the costs of the related asset as required.

After the commencement date, the Group remeasures the lease liability by discounting the revised lease payments using a revised discount rate if either: (i) there is a change in the in-substance fixed lease payments; (ii) there is a change in the amounts expected to be payable under a residual value guarantee; (iii) there is a change in future lease payments resulting from a change in an index or a rate used to determine those payments; (iv) there is a change in the assessment of an option to purchase, extend or terminate the underlying asset, assessed in the context of a purchase option.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(15) Insurance contracts

Insurance contracts classification

Under the contract the insurer signed with the policyholder, the insurer may undertake insurance risk or other risks, or both insurance risk and other risks.

Where the Group undertakes both the insurance risk and other risks, and the insurance risk and other risks can be distinguished and separately measured, the insurance risk shall be separately accounted for as insurance contracts while the other risks shall be accounted for as either investment contracts or service contracts. Where the insurance risk and other risks cannot be distinguished from each other, or can be distinguished but cannot be separately measured, significant insurance risk test shall be performed at the contract's initial recognition date. If the insurance risk is significant, the contract is classified as an insurance contract; otherwise, it is classified as an investment contract or service contract.

Insurance income recognition

Insurance premium income is recognised when all of the following criteria are met:

(a) The insurance contract is issued, and related insurance risk is undertaken by the Group;

(b) The related economic benefits are likely to flow to the Group; and

(c) Related income can be reliably measured.

Insurance contract liabilities

When measuring insurance contract liabilities, the Group identifies insurance contracts where insurance risks are of similar nature as a measurement unit. Insurance contract liabilities are measured based on a reasonably estimated amount of payments that the Group is obliged to pay in order to fulfil relevant obligations under the insurance contract. Structured product that cannot be sold separately is classified as one measurement unit.

The Group performs liability adequacy test at the end of each reporting period. If the insurance contract liabilities re-calculated with the insurance actuarial method exceed their carrying amounts on the date of the liability adequacy test, an additional provision shall be made for the respective insurance contract liabilities based on the differences. Otherwise, no adjustment is made to the respective insurance contract liabilities.

(16) Provisions and contingent liabilities

A provision is recognised in the statement of financial position if, as the result of a past event, the Group has a present legal or constructive obligation that can be reliably estimated and it is probable that an outflow of economic benefits will be required to settle the obligation. A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation. Factors pertaining to a contingency such as the risks, uncertainties and time value of money are taken into account as a whole in reaching the best estimate. Where the effect of the time value of money is material, the best estimate is determined by discounting the related future cash outflows.

A potential obligation arising from a past transaction or event whose existence can only be confirmed by the occurrence or non-occurrence of future uncertain events; or a present obligation that arises from past transactions or events where it is not probable that an outflow of economic benefits is required to settle the obligation or the amount of the obligation cannot be measured reliably, is disclosed as a contingent liability unless the probability of outflow of economic benefit is remote.

(17) 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 issued 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.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(18) Financial guarantees and loan commitments

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due, in accordance with the terms of a debt instrument.

Financial guarantees are initially recognised at fair value on the date the guarantee was given. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial amount, less amortisation of guarantee fees, and the best estimate of the expected credit loss provision required to settle the guarantee. Any increase in the liability relating to guarantees is taken to the consolidated statement of profit and loss.

The impairment allowance of loan commitments provided by the Group is measured by ECL. The Group has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument.

For loan commitments and financial guarantee contracts, the loss allowance is recognised as a provision. However, for contracts that include both a loan and an undrawn commitment and the Group can not separately identify the ECL on the undrawn commitment component from those on the loan component, the ECL on the undrawn commitment are recognised together with the loss allowance for the loan. To the extent that the combined ECL exceed the gross carrying amount of the loan, the ECL are recognised as a provision.

(19) Fiduciary activities

The Group's fiduciary business refers to the management of assets for customers in accordance with custody agreements signed by the Group and securities investment funds, insurance companies, annuity plans and other organisations. The Group fulfils its fiduciary duty and receives relevant fees in accordance with these agreements, and does not take up any risks and rewards related to the assets under custody, which are recorded as off-balance sheet items.

The Group conducts entrusted lending business, whereby it enters into entrusted loan agreements with customers. Under the terms of these agreements, the customers provide funding (the "entrusted funds") to the Group, and the Group grants loans to third parties (the "entrusted loans") according to the instructions of the customers. As the Group does not assume the risks and rewards of the entrusted loans and the corresponding entrusted funds, entrusted loans and funds are recorded as off-balance sheet items at their principal amounts and no impairment assessments are made for these entrusted loans.

(20) Income recognition

Provided the control of goods or services have been transferred to customers in an amount reflects the consideration to which the Group expects to be entitled, revenue is recognised in the income statement as follows:

(a) Interest income

Interest income for interest bearing debt instruments measured at amortized cost and fair value through other comprehensive income is recognised in profit or loss based on effective interest method. Interest income includes the amortisation of any discount or premium or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest basis. The effective interest method is a method of calculating the amortised cost of financial assets and liabilities and of allocating the interest income and interest expense over the relevant period.

(b) Fee and commission income

Fee and commission income is recognised when the performance obligation is satisfied. For those services that are provided over a period of time, fee and commission income is accrued in accordance with the terms and conditions of the service agreement. For other services, fee and commission income is recognised when the transactions are completed.

(c) Dividend income

Dividend income from equity investments is recognised in profit or loss on the date when the Group's right to receive payment is established.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(21) Income tax

Current income tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantially enacted at the end of each reporting period, and any adjustment to tax payable in respect of previous periods. Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax also arises from unused tax losses and unused tax credits. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax losses and unused tax credits can be utilised.

Current income tax and movements in deferred tax balances are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

At the end of each reporting period, deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled according to the requirements of tax laws. The Group also considers the possibility of realisation and the settlement of deferred tax assets and deferred tax liabilities in the calculation.

Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Group has the legally enforceable right to offset current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on the same taxable entity. Otherwise, the balances of deferred tax assets and deferred tax liabilities, and movements therein, are presented separately from each other and are not offset.

(22) Cash equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(23) Profit distribution

Proposed dividends which are declared and approved after the end of each reporting period are not recognised as a liability in the statement of financial position and are instead disclosed as a subsequent event after the end of each reporting period in the note to the financial statements. Dividends payable are recognised as liabilities in the period in which they are approved.

(24) Related parties

If the Group has the power, directly or indirectly, to control, jointly control or exercise significant influence over another party, or vice versa, or where the Group and one or more parties are subject to common control or joint control from another party, they are considered to be related parties. Related parties may be individuals or enterprises. The Group's related parties include but are not limited to the following:

(a) the Bank's parents;

(b) the Bank's subsidiaries;

(c) other entities which are controlled by the Bank's parents;

(d) an investor who has joint control over the Group;

(e) an investor who can exercise significant influence over the Group;

(f) an associate of the Group;

(g) a joint venture entity of the Group;

(h) principal individual investors of the Group, and close family members of such individuals (principal individual investors are the individual investors who have the power, directly or indirectly, to control, jointly control or exercise significant influence over another party);

(i) key management personnel of the Group and close family members of such individuals (key management personnel represent those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director of that entity);

(j) key management personnel of the Bank's parents and close family members of such individuals;

(k) other entities that are controlled or jointly controlled by the Group's principal individual investors, key management personnel, or close family members of such individuals;

(l) a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group; and

(m) joint ventures and their subsidiaries, or associates and their subsidiaries, of other member units (including parent companies and subsidiaries) of the Bank's corporate group, joint ventures and their subsidiaries, or associates and their subsidiaries, of companies that exercise joint control of the Bank, joint ventures and their subsidiaries of the companies that have a significant influence on the Bank, subsidiaries of joint ventures, and subsidiaries of associates.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(25) Operating segments

The identification of operating segments of the Group is on the basis of internal reports that are regularly reviewed by the Group's chief operating decision makers in order to allocate resources to the segment and assess its performance. On the basis of the operating segments, the Group identifies the reportable segments, using a combination of factors including products and services, geographical areas, regulatory environments etc., which the management has chosen for organization. The operating segments that meet the specified criteria have been aggregated, and the operating segments that meet quantitative thresholds have been reported separately.

The amount reported for each operating segment item is the measure reported to the chief operating decision makers for the purposes of allocating resources to the segment and assessing its performance. Segment information is prepared in conformity with the accounting policies adopted for preparing and presenting the financial statements of the Group.

(26) Significant accounting estimates and judgements

(a) Classification of financial assets

The Group's significant judgments in determining the classification of financial assets include the analysis of business models and contractual cash flow characteristics.

The Group determines the business model for the management of financial assets at the level of portfolios and considers the factors such as how the asset's performance is evaluated and reported to key management personnel, the risks affecting the performance of financial assets and the way in which financial assets are managed, and how managers are compensated.

In assessing whether the contractual cash flow of financial assets is consistent with the basic lending arrangement, the Group uses the following key judgments: whether the principals may change because of the changes of time distribution or amount during the life period due to the reasons such as prepayment; whether the interests includes only the time value of money, credit risk, other basic borrowing risks and the consideration of costs and profits. For example, whether the amount prepaid reflects only the principal that has not yet been paid and the interest based on the outstanding principal, as well as reasonable compensation paid for the early termination of the contract.

(b) Expected credit losses

The measurement of the expected credit loss allowance for the investment in financial assets measured at amortised cost and debt instruments measured at FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring expected credit losses is further detailed in Note 61(1).

A number of significant judgements are required in applying the accounting requirements for measuring expected credit losses, such as:

– Determining criteria for significant increase in credit risk;

– Choosing appropriate models and assumptions for the measurement of expected credit losses;

– Determining the forward-looking information and weightings for different types of products/markets when measuring expected credit losses; and

– Establishing groups of financial instruments with similar risk characteristics for the purpose of measuring expected credit losses.

Detailed information about the judgements and estimates made by the Group in the above areas is set out in Note 61(1) credit risk.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(26) Significant accounting estimates and judgements (continued)

(c) Fair value of financial instruments

The fair value of financial instruments that are traded in an active market is based on their quoted market prices in an active market at the valuation date. A quoted market price is a price from an active market where price information is readily and regularly available from an exchange or from a dealer quotation and where this price information represents actual and recurring orderly transactions.

For all other financial instruments, the Group determines fair values using valuation techniques which include discounted cash flow models, as well as other types of valuation model. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, foreign currency exchange rates, credit spreads and the liquidity premium. Where discounted cash flow techniques are used, estimated cash flows are based on management's best estimates and the discount rate used is a market rate at the end of each reporting period applicable for an instrument with similar terms and conditions. Where other pricing models are used, inputs are based on the maximising observable market data at the end of each reporting period. However, where market data is not available, the Group needs to make the best estimates on such unobservable market inputs.

The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants in an orderly transaction.

(d) Income taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates the tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations. Deferred tax assets are recognised for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profits will be available against which the unused tax credits can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered.

(e) Employee retirement benefit obligations

The Group has established liabilities in connection with benefits paid to certain retired employees. The amounts of employee benefit expense and liabilities are dependent on assumptions used in calculating such amounts. These assumptions include discount rates, pension benefit inflation rates, medical benefit inflation rates, and other factors. While management believes that its assumptions are appropriate, differences in actual experience or changes in assumptions may affect the Group's other comprehensive income and liability related to its employee retirement benefit obligations.

(f) Scope of consolidation

The Group has taken into consideration all facts and circumstances in the assessment of whether the Group, as an investor, controls the investee. The principle of control includes three elements: (i) power over the investee; (ii) exposure, or rights, to variable returns from involvement with the investee; and (iii) the ability to use power over the investee to affect the amount of the investor's 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.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

5 TAXATION

The Group's main applicable taxes and tax rates are as follows:

Value added tax ("VAT")

Pursuant to the 'Circular on the Comprehensive Plan for Levying VAT in place of Business Tax' (Cai Shui [2016] No.36) jointly issued by the Ministry of Finance ("MOF") and the State Administration of Taxation, business tax that used to be levied on taxable income of the Bank and its subsidiaries in Mainland China was replaced by VAT from 1 May 2016, and the main VAT taxation rate is 6%.

City construction tax

City construction tax is calculated as 1% to 7% of VAT.

Education surcharge

Education surcharge is calculated as 3% of VAT.

Local education surcharge

Local education surcharge is calculated as 2% of VAT.

Income tax

The income tax rate that is applicable to the Bank and its subsidiaries in Mainland China is 25%. Taxation on overseas operations is charged at the relevant local rates. Tax paid on overseas operations is set off to the extent allowed under the relevant income tax laws of the PRC.

6 NET INTEREST INCOME

	2020	2019
Interest income arising from:		
Deposits with central banks	**35,537**	34,769
Deposits with banks and non-bank financial institutions	**12,306**	9,027
Placements with banks and non-bank financial institutions	**9,366**	11,052
Financial assets held under resale agreements	**11,966**	8,657
Investment securities	**209,803**	189,465
Loans and advances to customers		
– Corporate loans and advances	**361,371**	341,616
– Personal loans and advances	**339,230**	301,351
– Discounted bills	**9,930**	13,948
Total	**989,509**	909,885
Interest expense arising from:		
Borrowings from central banks	**(19,406)**	(14,326)
Deposits from banks and non-bank financial institutions	**(40,026)**	(32,248)
Placements from banks and non-bank financial institutions	**(8,551)**	(14,344)
Financial assets sold under repurchase agreements	**(938)**	(1,296)
Debt securities issued	**(30,827)**	(29,671)
Deposits from customers		
– Corporate deposits	**(143,287)**	(130,879)
– Personal deposits	**(170,565)**	(150,055)
Total	**(413,600)**	(372,819)
Net interest income	**575,909**	537,066

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

6 NET INTEREST INCOME (CONTINUED)

(1) Interest income from impaired financial assets is listed as follows:

	2020	2019
Impaired loans and advances	3,838	2,816
Other impaired financial assets	86	276
Total	3,924	3,092

(2) Interest expense on financial liabilities with maturity over five years mainly represented the interest expense on debt securities issued.

7 NET FEE AND COMMISSION INCOME

	2020	2019
Fee and commission income		
Electronic banking service fees	29,007	25,666
Bank card fees	21,374	24,025
Agency service fees	17,366	16,894
Commission on trust and fiduciary activities	15,593	14,194
Wealth management service fees	13,398	12,899
Settlement and clearing fees	12,542	12,267
Consultancy and advisory fees	11,577	10,331
Guarantee fees	3,917	3,633
Credit commitment fees	1,309	1,449
Others	5,429	5,309
Total	131,512	126,667
Fee and commission expense		
Bank card transaction fees	(6,037)	(6,650)
Inter-bank transaction fees	(1,148)	(1,277)
Others	(9,745)	(7,842)
Total	(16,930)	(15,769)
Net fee and commission income	114,582	110,898

8 NET TRADING GAIN

	2020	2019
Debt securities	4,255	8,384
Derivatives	(345)	250
Equity investments	12	5
Others	391	481
Total	4,313	9,120

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

9 DIVIDEND INCOME

	2020	2019
Dividend income from equity investments measured at fair value through profit or loss	**3,165**	1,148
Dividend income from equity investments measured at fair value through other comprehensive income	**17**	36
Total	**3,182**	1,184

10 NET GAIN ARISING FROM INVESTMENT SECURITIES

	2020	2019
Net gain related to financial assets designated as measured at fair value through profit or loss	**5,121**	8,699
Net loss related to financial liabilities designated as measured at fair value through profit or loss	**(10,300)**	(9,399)
Net gain related to other financial assets and liabilities measured at fair value through profit or loss	**9,825**	8,687
Net gain related to financial assets measured at fair value through other comprehensive income	**168**	711
Net revaluation gain reclassified from other comprehensive income on disposal	**655**	234
Others	**296**	161
Total	**5,765**	9,093

11 NET GAIN ON DERECOGNITION OF FINANCIAL ASSETS MEASURED AT AMORTISED COST

For the year ended 31 December 2020, a net gain on derecognition of financial assets measured at amortised cost mainly attributes to the Group's issuance of asset-backed securities, which led to RMB4,338 million net gains arising from derecognition of loans and advances to customers (for the year ended 31 December 2019: net gains RMB2,820 million).

12 OTHER OPERATING INCOME, NET

Other operating income

	2020	2019
Insurance related income	**31,406**	22,914
Foreign exchange gains	**5,262**	4,617
Rental income	**3,488**	2,981
Others	**7,718**	5,615
Total	**47,874**	36,127

Foreign exchange gains or losses includes gains and losses in connection with the translation of foreign currency denominated monetary assets and liabilities, and net realised and unrealised gains and losses on foreign exchange derivatives (including those foreign exchange swaps, foreign exchange options and cross currency swaps entered into in order to economically hedge positions in foreign currency assets).

Other operating expense

	2020	2019
Insurance related costs	**32,766**	22,354
Others	**9,284**	6,492
Total	**42,050**	28,846

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

13 OPERATING EXPENSES

	2020	2019
Staff costs		
– Salaries, bonuses, allowances and subsidies	71,356	69,862
– Defined contribution plans	12,261	14,275
– Housing funds	6,809	6,521
– Union running costs and employee education costs	2,624	2,948
– Early retirement expenses	17	19
– Compensation to employees for termination of employment relationship	5	6
– Others	11,281	12,153
	104,353	105,784
Premises and equipment expenses		
– Depreciation charges	23,381	21,304
– Rent and property management expenses	4,299	4,952
– Maintenance	3,424	3,394
– Utilities	1,657	1,851
– Others	2,168	2,174
	34,929	33,675
Taxes and surcharges	7,325	6,777
Amortisation expenses	2,801	2,623
Other general and administrative expenses	39,166	39,273
Total	188,574	188,132

14 CREDIT IMPAIRMENT LOSSES

	2020	2019
Loans and advances to customers	167,139	148,942
Financial investments		
– Financial assets measured at amortised cost	7,919	5,789
– Financial assets measured at fair value through other comprehensive income	(244)	1,497
Off-balance sheet credit business	(3,601)	4,343
Others	22,278	2,429
Total	193,491	163,000

15 OTHER IMPAIRMENT LOSSES

	2020	2019
Other impairment losses	(3,562)	521

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

16 DIRECTORS' AND SUPERVISORS' EMOLUMENTS

The aggregate of the emoluments before individual income tax of directors and supervisors who held office during the year is as follows:

	2020				
	Fees RMB' 000	Remuneration paid RMB' 000	Contributions to defined contribution retirement schemes RMB' 000	Other benefits in kind (Note (v)) RMB' 000	Total (Note (i)) RMB' 000
Executive directors					
Tian Guoli (Note (vi))	–	619	39	125	783
Wang Jiang (Notes (ii) & (vi))	–	–	–	–	–
Lyu Jiajin (Notes (ii) & (vi))	–	279	25	66	370
Non-executive directors					
Xu Jiandong (Notes (ii) & (iii))	–	–	–	–	–
Zhang Qi (Note (iii))	–	–	–	–	–
Tian Bo (Note (iii))	–	–	–	–	–
Xia Yang (Note (iii))	–	–	–	–	–
Shao Min (Notes (ii) & (iii))	–	–	–	–	–
Liu Fang (Notes (ii) & (iii))	–	–	–	–	–
Independent non-executive directors					
Anita Fung Yuen Mei	390	–	–	–	390
Malcolm Christopher McCarthy	410	–	–	–	410
Carl Walter	440	–	–	–	440
Kenneth Patrick Chung	440	–	–	–	440
Graeme Wheeler	440	–	–	–	440
Michel Madelain (Note (ii))	390	–	–	–	390
Supervisors					
Wang Yongqing (Note (vi))	–	619	39	125	783
Wu Jianhang (Note (vi))	–	660	39	196	895
Yang Fenglai (Notes (ii) & (vi))	–	329	17	103	449
Lu Kegui (Note (iv))	50	–	–	–	50
Wang Yi (Note (iv))	50	–	–	–	50
Zhao Xijun	290	–	–	–	290
Liu Huan (Note (ii))	125	–	–	–	125
Ben Shenglin (Note (ii))	125	–	–	–	125
Former executive directors					
Liu Guiping (Notes (ii) & (vi))	–	568	34	114	716
Zhang Gengsheng (Notes (ii) & (vi))	–	325	17	66	408
Former non-executive directors					
Feng Bing (Notes (ii) & (iii))	–	–	–	–	–
Zhu Hailin (Notes (ii) & (iii))	–	–	–	–	–
Former supervisors					
Fang Qiuyue (Notes (ii) & (vi))	–	220	–	58	278
Cheng Yuanguo (Notes (ii) & (iv))	50	–	–	–	50
	3,200	3,619	210	853	7,882

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

16 DIRECTORS' AND SUPERVISORS' EMOLUMENTS (CONTINUED)

The aggregate of the emoluments before individual income tax of directors and supervisors who held office during the year is as follows: (continued)

	2019			
	Accrued cost (Allowances) RMB'000	Social insurance, corporate annuity, supplementary medical insurance and housing fund paid by the Bank RMB'000	Other monetary income RMB'000	Total RMB'000
Executive directors				
Tian Guoli (Note (vi))	857	169	–	1,026
Liu Guiping (Notes (ii) & (vi))	571	108	–	679
Zhang Gengsheng (Notes (ii) & (vi))	771	165	–	936
Non-executive directors				
Feng Bing (Notes (ii) & (iii))	–	–	–	–
Zhu Hailin (Notes (ii) & (iii))	–	–	–	–
Zhang Qi (Note (iii))	–	–	–	–
Tian Bo (Note (iii))	–	–	–	–
Xia Yang (Note (iii))	–	–	–	–
Independent non-executive directors				
Anita Fung Yuen Mei	415	–	–	415
Malcolm Christopher McCarthy	410	–	–	410
Carl Walter	442	–	–	442
Kenneth Patrick Chung	430	–	–	430
Graeme Wheeler	110	–	–	110
Supervisors				
Wang Yongqing (Note (vi))	357	66	–	423
Wu Jianhang (Note (vi))	1,976	196	–	2,172
Fang Qiuyue (Notes (ii) & (vi))	1,976	200	–	2,176
Lu Kegui (Note (iv))	50	–	–	50
Cheng Yuanguo (Notes (ii) & (iv))	50	–	–	50
Wang Yi (Note (iv))	50	–	–	50
Zhao Xijun	138	–	–	138
Former executive director				
Wang Zuji	214	46	–	260
Former non-executive directors				
Li Jun	–	–	–	–
Wu Min	–	–	–	–
Former independent non-executive directors				
Chung Shui Ming Timpson	220	–	–	220
Murray Horn	353	–	–	353
Former supervisor				
Bai Jianjun	125	–	–	125
	9,515	950	–	10,465

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

16 DIRECTORS' AND SUPERVISORS' EMOLUMENTS (CONTINUED)

Notes:

(i) The amounts of emoluments for the year ended 31 December 2020 in respect of the services rendered by the directors and supervisors are subject to the approval of the Annual General Meeting.

(ii) Upon election at the 2021 first extraordinary general meeting of the Bank, Mr. Wang Jiang commenced his position as executive director of the Bank from March 2021. Upon approval of the Board of the Bank, Mr. Wang Jiang commenced his position as vice chairman of the Bank from March 2021. Upon appointment of the Board of the Bank and filing with the CBIRC, Mr. Wang Jiang commenced his position as president of the Bank from February 2021. Upon election at the 2020 first extraordinary general meeting of the Bank and approval of the CBIRC, Mr. Lyu Jiajin commenced his position as executive director of the Bank from December 2020. Upon election at the 2020 first extraordinary general meeting of the Bank and approval of the CBIRC, Ms. Shao Min and Ms. Liu Fang commenced their positions as non-executive directors of the Bank from January 2021. Upon election at the 2019 annual general meeting of the Bank, Mr. Xu Jiandong commenced his position as non-executive director of the Bank from June 2020. Upon election at the 2019 first extraordinary general meeting of the Bank and approval of the CBIRC, Mr. Michel Madelain commenced his position as independent non-executive director of the Bank from January 2020.

By reason of age, Mr. Zhang Gengsheng ceased to serve as executive director and executive vice president of the Bank from December 2020. Due to change of job, Mr. Liu Guiping ceased to serve as vice chairman, executive director and president of the Bank from November 2020. Due to change of job, Ms. Feng Bing ceased to serve as non-executive director of the Bank from January 2021. Due to the expiration of his term of office, Mr. Zhu Hailin ceased to serve as non-executive director of the Bank from June 2020.

Upon election at the 2019 annual general meeting of the Bank, Mr. Yang Fenglai commenced his position as the shareholder representative supervisor of the Bank from June 2020, Mr. Liu Huan and Mr. Ben Shenglin commenced their positions as external supervisors of the Bank from June 2020.

By reason of age, Mr. Fang Qiuyue ceased to serve as shareholder representative supervisor of the Bank from April 2020. Due to change of job, Mr. Cheng Yuanguo ceased to serve as employee representative supervisor of the Bank from March 2021. Upon appointment of the Board of the Bank and filing with the CBIRC, Mr. Cheng Yuanguo commenced his position as chief risk officer of the Bank from April 2021.

(iii) The Bank did not need to pay the emoluments of non-executive directors appointed by Huijin for the services rendered in 2020 and 2019.

(iv) The amounts only included fees for their services as supervisors.

(v) Other benefits in kind included the Bank's contributions to medical fund, housing fund and other social insurances, which are payable to labour and security authorities based on the lower of certain percentage of the salaries and allowance or the prescribed upper limits as required by the relevant regulations issued by the government authorities. Other benefits also included the Bank's contribution to its own corporate annuity plan (which was set up in accordance with the relevant policies issued by the government authorities) and supplementary medical insurance. In accordance with the *Administrative Measures on Annuities of State-owned Financial Enterprises* and the *China Construction Bank Corporation Annuity Plan*, in 2020, the Bank topped up the difference resulting from adjustments to annuity contribution percentages between February 2018 and December 2019. The above disclosure of benefits data includes the top-up made by the Bank of the difference in annuity contributions for 2020.

(vi) The total compensation package for these directors and supervisors for the year ended 31 December 2020 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 a significant impact on the Group's financial statements for the year ended 31 December 2020. The final compensation will be disclosed in a separate announcement when determined.

(vii) The total compensation package for certain directors and supervisors for the year ended 31 December 2019 had not been finalised in accordance with regulations of the PRC relevant authorities as at the date that the 2019 financial statements were announced. The aforesaid total compensation package for the directors and supervisors for the year ended 31 December 2019 was the final amount.

(viii) From 2015 onwards, remuneration of the Bank's leaders administered by central authorities has been paid in accordance with relevant policies relating to the central remuneration reform.

None of the directors and supervisors received any inducements or compensation for loss of office, or waived any emoluments during the years ended 31 December 2020 and 2019.

17 INDIVIDUALS WITH HIGHEST EMOLUMENTS

None of the five individuals with the highest emoluments are directors or supervisors whose emoluments are disclosed in Note 16. The aggregate of the emoluments before individual income tax of the five highest paid individuals during the year is as follows:

	2020 RMB'000	2019 RMB'000
Salaries and allowance	12,514	15,644
Variable compensation	29,881	32,370
Contributions to defined contribution retirement schemes	628	792
Other benefit in kind	581	706
	43,604	49,512

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

17 INDIVIDUALS WITH HIGHEST EMOLUMENTS (CONTINUED)

The numbers of these individuals whose emoluments before individual income tax are within the following bands is set out below.

	2020	2019
RMB8,000,001 – RMB8,500,000	1	–
RMB8,500,001 – RMB9,000,000	3	1
RMB9,000,001 – RMB9,500,000	–	1
RMB9,500,001 – RMB10,000,000	1	–
RMB10,000,001 – RMB10,500,000	–	2
RMB10,500,001 – RMB11,000,000	–	–
RMB11,000,001 – RMB11,500,000	–	1
RMB11,500,001 – RMB12,000,000	–	–

None of these individuals received any inducements or compensation for loss of office, or waived any emoluments during the years ended 31 December 2020 and 2019.

18 INCOME TAX EXPENSE

(1) Income tax expense

	2020	2019
Current tax	78,345	74,013
– Mainland China	75,721	71,045
– Hong Kong	1,252	1,340
– Other countries and regions	1,372	1,628
Adjustments for prior years	906	498
Deferred tax	(16,214)	(17,136)
Total	63,037	57,375

The provisions for income taxes for Mainland China and Hong Kong are calculated at 25% and 16.5% of the estimated taxable income from Mainland China and Hong Kong operations for the reporting period, respectively. Taxation for other overseas operations is charged at the appropriate current rates of taxation ruling in the relevant tax jurisdictions.

(2) Reconciliation between income tax expense and accounting profit

	Note	2020	2019
Profit before tax		336,616	326,597
Income tax calculated at the 25% statutory tax rate		84,154	81,649
Effects of different applicable rates of tax prevailing in other countries/regions		(116)	(234)
Non-deductible expenses	(i)	21,454	11,891
Non-taxable income	(ii)	(43,361)	(36,429)
Adjustments on income tax for prior years which affect profit or loss		906	498
Income tax expense		63,037	57,375

(i) Non-deductible expenses primarily include non-deductible losses resulting from write-off of loans, and items that are in excess of deductible amount under the relevant PRC tax regulations such as staff costs and entertainment expenses.

(ii) Non-taxable income primarily includes interest income from PRC government bonds and local government bonds.

19 EARNINGS PER SHARE

Basic earnings per share for the years ended 31 December 2020 and 2019 have been computed by dividing the net profit attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the years.

For the purpose of calculating basic earnings per share, dividends on non-cumulative preference shares declared in respect of the period and the perpetual bond interest paid in the period should be deducted from the amount attributable to equity shareholders of the Bank.

The conversion feature of preference shares are considered to be contingently issuable ordinary shares. The triggering events of conversion did not occur for the years ended 31 December 2020 and 2019, therefore the conversion feature of preference shares has no effect on the basic and diluted earnings per share calculations.

	2020	2019
Net profit attributable to equity shareholders of the Bank	**271,050**	266,733
Less: Profit for the year attributable to other equity instruments holders of the Bank	**(5,624)**	(3,962)
Net profit attributable to ordinary shareholders of the Bank	**265,426**	262,771
Weighted average number of ordinary shares (in millions of shares)	**250,011**	250,011
Basic earnings per share attributable to ordinary shareholders of the Bank (in RMB Yuan)	**1.06**	1.05
Diluted earnings per share attributable to ordinary shareholders of the Bank (in RMB Yuan)	**1.06**	1.05

20 CASH AND DEPOSITS WITH CENTRAL BANKS

	Note	**31 December 2020**	31 December 2019
Cash		**49,068**	60,791
Deposits with central banks			
– Statutory deposit reserves	(1)	**2,285,486**	2,094,800
– Surplus deposit reserves	(2)	**434,199**	398,676
– Fiscal deposits and others		**46,323**	65,825
Accrued interest		**1,088**	918
Total		**2,816,164**	2,621,010

(1) The Group places statutory deposit reserves with the People's Bank of China ("PBOC") and overseas central banks where it has operations. The statutory deposit reserves are not available for use in the Group's daily business.

As at the end of the reporting period, the Bank's statutory deposit reserve rates in Mainland China were as follows:

	31 December 2020	31 December 2019
Reserve rate for RMB deposits	**11.00%**	11.50%
Reserve rate for foreign currency deposits	**5.00%**	5.00%

The statutory RMB deposit reserve rates applicable to domestic subsidiaries of the Group are determined by the PBOC.

The amounts of statutory deposit reserves placed with the central banks of overseas countries are determined by local jurisdictions.

(2) The surplus deposit reserve maintained with the PBOC is mainly for the purpose of clearing.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

21 DEPOSITS WITH BANKS AND NON-BANK FINANCIAL INSTITUTIONS

(1) Analysed by type of counterparties

	31 December 2020	31 December 2019
Banks	440,339	406,202
Non-bank financial institutions	11,602	12,605
Accrued interest	1,590	1,072
Gross balances	453,531	419,879
Allowances for impairment losses (Note 35)	(298)	(218)
Net balances	453,233	419,661

(2) Analysed by geographical sectors

	31 December 2020	31 December 2019
Mainland China	405,588	371,963
Overseas	46,353	46,844
Accrued interest	1,590	1,072
Gross balances	453,531	419,879
Allowances for impairment losses (Note 35)	(298)	(218)
Net balances	453,233	419,661

For the years ended 31 December 2020 and 2019, the book value of deposits with banks and non-bank financial institutions was in Stage 1. The book value and the impairment loss allowances do not involve the transfers between stages.

22 PLACEMENTS WITH BANKS AND NON-BANK FINANCIAL INSTITUTIONS

(1) Analysed by type of counterparties

	31 December 2020	31 December 2019
Banks	258,711	387,211
Non-bank financial institutions	108,478	141,822
Accrued interest	1,525	2,338
Gross balances	368,714	531,371
Allowances for impairment losses (Note 35)	(310)	(225)
Net balances	368,404	531,146

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

22 PLACEMENTS WITH BANKS AND NON-BANK FINANCIAL INSTITUTIONS (CONTINUED)

(2) Analysed by geographical sectors

	31 December 2020	31 December 2019
Mainland China	**291,791**	339,185
Overseas	**75,398**	189,848
Accrued interest	**1,525**	2,338
Gross balances	**368,714**	531,371
Allowances for impairment losses (Note 35)	**(310)**	(225)
Net balances	**368,404**	531,146

For the years ended 31 December 2020 and 2019, the book value of placements with banks and non-bank financial institutions was in Stage 1. The book value and the impairment loss allowances do not involve the transfers between stages.

23 DERIVATIVES AND HEDGE ACCOUNTING

(1) Analysed by type of contract

		31 December 2020			31 December 2019		
	Note	Notional amounts	Assets	Liabilities	Notional amounts	Assets	Liabilities
Interest rate contracts		**650,225**	**1,802**	**4,168**	535,745	1,187	2,088
Exchange rate contracts		**3,461,021**	**63,881**	**73,376**	3,727,006	31,681	29,726
Other contracts	(a)	**126,071**	**3,346**	**4,412**	85,784	1,773	1,968
Total		**4,237,317**	**69,029**	**81,956**	4,348,535	34,641	33,782

(2) Analysed by counterparty credit risk-weighted assets

	Note	31 December 2020	31 December 2019
Counterparty credit default risk-weighted assets			
– Interest rate contracts		**4,073**	2,670
– Exchange rate contracts		**38,946**	37,124
– Other contracts	(a)	**10,015**	1,500
Subtotal		**53,034**	41,294
Risk-weighted assets for credit valuation adjustment		**14,739**	14,194
Total		**67,773**	55,488

The notional amounts of derivatives only represent the unsettled transaction volume as at the end of the reporting period, instead of the amount of risk assets. Since 1 January 2013, the Group has adopted Capital Rules for Commercial Banks (Provisional) and other related policies. According to the rules set out by the CBIRC, the counterparty credit risk-weighted assets included risk-weighted assets for credit valuation adjustments with the considerations of counterparty status and maturity characteristic, and included back-to-back client-driven transactions. The risk-weighted assets for counterparty credit risk of derivatives of the Group were calculated in accordance with the Rules on Measuring Derivative Counterparty Default Risk Assets since 1 January 2019.

(a) Other contracts mainly consist of precious metals and commodity contracts.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

23 DERIVATIVES AND HEDGE ACCOUNTING (CONTINUED)

(3) Hedge accounting

The following designated hedging instruments are included in the derivative financial instruments disclosed above.

	31 December 2020			31 December 2019		
	Notional amounts	Assets	Liabilities	Notional amounts	Assets	Liabilities
Fair value hedges						
Interest rate swaps	29,692	62	(1,131)	39,801	83	(344)
Cross currency swaps	30	–	(3)	35	–	–
Cash flow hedges						
Foreign exchange swaps	7,082	273	(82)	39,146	640	(193)
Cross currency swaps	654	–	(95)	–	–	–
Interest rate swaps	8,028	–	(160)	13,608	25	(78)
Total	45,486	335	(1,471)	92,590	748	(615)

(a) *Fair value hedges*

The Group uses interest rate swaps and cross currency swaps to hedge against changes in fair value of financial assets measured at fair value through other comprehensive income, debt securities issued, and loans and advances to customers arising from changes in interest rates and exchange rates.

Net (losses)/gains on fair value hedges are as follows:

	2020	2019
Net (losses)/gains on		
– hedging instruments	(837)	(664)
– hedged items	824	661

The gain and loss arising from the ineffective portion of fair value hedges was immaterial for the year ended 31 December 2020 and 2019.

(b) *Cash flow hedges*

The Group uses foreign exchange swaps, cross currency swaps and interest rate swaps to hedge against exposures to cash flow variability primarily from foreign exchange and interest rate risks of deposits from customers, loans and advances to customers, debt securities issued, placements from banks and non-bank financial institutions, and placements with banks and non-bank financial institutions. The maturities of hedging instruments and hedged items are both within five years.

For the year ended 31 December 2020, the Group's net loss from the cash flow hedges of RMB61 million was recognised in other comprehensive income (for the year ended 31 December 2019: net loss from cash flow hedges of RMB292 million), and the gain and loss arising from the ineffective portion of cash flow hedges was immaterial.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

24 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

Financial assets held under resale agreements analysed by underlying assets are shown as follows:

	31 December 2020	31 December 2019
Debt securities		
– Government bonds	200,006	189,501
– Debt securities issued by policy banks, banks and non-bank financial institutions	289,459	299,738
– Corporate bonds	133	25
Subtotal	489,598	489,264
Discounted bills	112,458	68,345
Accrued interest	350	263
Total	602,406	557,872
Allowances for impairment losses (Note 35)	(167)	(63)
Net balances	602,239	557,809

For the year ended 31 December 2020 and 2019, the book value of financial assets held under resale agreements was in Stage 1. The book value and the impairment loss allowances do not involve the transfers between stages.

25 LOANS AND ADVANCES TO CUSTOMERS

(1) Analysed by measurement

	Note	31 December 2020	31 December 2019
Loans and advances to customers measured at amortised cost		16,476,817	14,479,931
Less: allowances for impairment losses		(556,063)	(482,158)
The carrying amount of loans and advances to customers measured at amortised cost	(a)	15,920,754	13,997,773
The carrying amount of loans and advances to customers measured at fair value through other comprehensive income	(b)	259,061	492,693
The carrying amount of loans and advances to customers measured at fair value through profit or loss	(c)	9,890	15,282
Accrued interest		41,664	36,253
The carrying amount of loans and advances to customers		16,231,369	14,542,001

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

25 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(1) Analysed by measurement (continued)

(a) *Loans and advances to customers measured at amortised cost*

	31 December 2020	31 December 2019
Corporate loans and advances		
– Loans	9,028,785	7,789,682
– Finance leases	136,849	137,769
	9,165,634	7,927,451
Personal loans and advances		
– Residential mortgages	5,885,022	5,355,724
– Personal consumer loans	274,635	199,007
– Personal business loans	138,481	44,918
– Credit cards	828,943	745,137
– Others	184,102	207,694
	7,311,183	6,552,480
Gross loans and advances to customers measured at amortised cost	16,476,817	14,479,931
Stage 1	(275,428)	(240,027)
Stage 2	(108,099)	(92,880)
Stage 3	(172,536)	(149,251)
Allowances for impairment losses (Note 35)	(556,063)	(482,158)
Net loans and advances to customers measured at amortised cost	15,920,754	13,997,773

(b) *Loans and advances to customers measured at fair value through other comprehensive income*

	31 December 2020	31 December 2019
Discounted bills	259,061	492,693

(c) *Loans and advances to customers measured at fair value through profit or loss*

	31 December 2020	31 December 2019
Corporate loans and advances	9,890	15,282

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

25 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(2) Analysed by assessment method of expected credit losses

	31 December 2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Gross loans and advances to customers measured at amortised cost	**15,682,498**	**533,590**	**260,729**	**16,476,817**
Less: allowances for impairment losses	**(275,428)**	**(108,099)**	**(172,536)**	**(556,063)**
The carrying amount of loans and advances to customers measured at amortised cost	**15,407,070**	**425,491**	**88,193**	**15,920,754**
The provision percentage for loans and advances to customers measured at amortised cost	**1.76%**	**20.26%**	**66.17%**	**3.37%**
The carrying amount of loans and advances to customers measured at fair value through other comprehensive income	**255,470**	**3,591**	**–**	**259,061**
Allowances for impairment losses on loans and advances to customers measured at fair value through other comprehensive income	**(603)**	**(237)**	**–**	**(840)**

	31 December 2019			
	Stage 1	Stage 2	Stage 3	Total
Gross loans and advances to customers measured at amortised cost	13,804,206	463,976	211,749	14,479,931
Less: allowances for impairment losses	(240,027)	(92,880)	(149,251)	(482,158)
The carrying amount of loans and advances to customers measured at amortised cost	13,564,179	371,096	62,498	13,997,773
The provision percentage for loans and advances to customers measured at amortised cost	1.74%	20.02%	70.48%	3.33%
The carrying amount of loans and advances to customers measured at fair value through other comprehensive income	490,545	1,424	724	492,693
Allowances for impairment losses on loans and advances to customers measured at fair value through other comprehensive income	(958)	(94)	(570)	(1,622)

For loans and advances to customers at Stages 1 and 2 and personal loans and advances at Stage 3, the expected credit loss ("ECL") model is used to calculate the ECL amount, while for corporate loans and advances and discounted bills at Stage 3, the discounted cash flow model is used.

The segmentation of the loans mentioned above is defined in Note 61(1).

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

25 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(3) Movements of allowances for impairment losses

		2020			
	Note	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
As at 1 January 2020		**240,027**	**92,880**	**149,251**	**482,158**
Transfers:					
Transfers in/(out) to Stage 1		**4,187**	**(3,944)**	**(243)**	**–**
Transfers in/(out) to Stage 2		**(10,992)**	**11,901**	**(909)**	**–**
Transfers in/(out) to Stage 3		**(3,804)**	**(27,823)**	**31,627**	**–**
Newly originated or purchased financial assets		**141,273**	**–**	**–**	**141,273**
Transfer out/repayment	(i)	**(94,802)**	**(15,131)**	**(45,863)**	**(155,796)**
Remeasurements	(ii)	**(461)**	**50,216**	**85,229**	**134,984**
Write-off		**–**	**–**	**(57,383)**	**(57,383)**
Recoveries of loans and advances written off		**–**	**–**	**10,827**	**10,827**
As at 31 December 2020		**275,428**	**108,099**	**172,536**	**556,063**

		2019			
	Note	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2019		183,615	93,624	140,384	417,623
Transfers:					
Transfers in/(out) to Stage 1		6,416	(6,061)	(355)	–
Transfers in/(out) to Stage 2		(7,197)	8,537	(1,340)	–
Transfers in/(out) to Stage 3		(2,163)	(18,815)	20,978	–
Newly originated or purchased financial assets		116,460	–	–	116,460
Transfer out/repayment	(i)	(76,030)	(12,040)	(50,416)	(138,486)
Remeasurements	(ii)	18,926	27,635	81,082	127,643
Write-off		–	–	(49,078)	(49,078)
Recoveries of loans and advances written off		–	–	7,996	7,996
As at 31 December 2019		240,027	92,880	149,251	482,158

(i) Transfer out/repayment refers to transfer of creditor's rights, securitisation of assets, debt-to-equity swaps and reversal of loss provision due to repayment of debt in the form of other assets, as well as repayment of the loans.

(ii) Remeasurements comprise the impact of changes in Probability of Default (PD), Loss Given Default (LGD) or Exposure at Default (EAD); changes in model assumptions and methodologies; credit loss changes due to stage-transfer; unwinding of discount; and the impact of exchange rate changes, etc.

The allowances for impairment losses disclosed above are for loans and advances to customers measured at amortised cost.

For the year ended 31 December 2020, the changes of gross carrying amounts of loans and advances to customers with a significant impact on the Group's impairment allowance mainly resulted from credit business in Mainland China, including:

For the year ended 31 December 2020, the gross carrying amount of domestic branches corporate loans and advances to customers transferred from Stage 1 to Stage 2 were RMB145,679 million (for the year ended 31 December 2019: RMB162,163 million). The gross carrying amount of loans transferred from Stage 2 to Stage 3 were RMB84,321 million (for the year ended 31 December 2019: RMB53,519 million). The gross carrying amount of loans transferred from Stage 2 to Stage 1 were RMB16,182 million (for the year ended 31 December 2019: RMB27,999 million). The changes of impairment allowances resulting from loans transferred from Stage 1 to Stage 3, and Stage 3 to Stage 1 and Stage 2 were not significant (for the year ended 31 December 2019: not significant). For the year ended 31 December 2020, the changes of impairment allowances resulting from stage-transfer of domestic branches personal loans and advances to customers were not significant (for the year ended 31 December 2019: not significant).

For the year ended 31 December 2020, the gross carrying amount of the loans of which impairment allowances were transferred from Stage 3 to Stage 2, and from Stage 3 or Stage 2 to Stage 1, due to the modification of contractual cash flows of domestic branches which did not result in derecognition were not significant (for the year ended 31 December 2019: not significant).

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25 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(4) Overdue loans analysed by overdue period

	31 December 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	**15,572**	**20,264**	**6,769**	**684**	**43,289**
Guaranteed loans	**12,862**	**18,439**	**29,069**	**2,300**	**62,670**
Loans secured by property and other immovable assets	**25,531**	**20,083**	**19,350**	**4,400**	**69,364**
Other pledged loans	**334**	**1,679**	**4,700**	**187**	**6,900**
Total	**54,299**	**60,465**	**59,888**	**7,571**	**182,223**
As a percentage of gross loans and advances to customers	**0.32%**	**0.36%**	**0.36%**	**0.05%**	**1.09%**

	31 December 2019				
	Overdue within three months	Overdue between three months and one year	Overdue between one year and three years	Overdue over three years	Total
Unsecured loans	17,134	14,363	4,829	757	37,083
Guaranteed loans	8,490	24,773	17,813	5,593	56,669
Loans secured by property and other immovable assets	20,387	25,982	17,080	5,507	68,956
Other pledged loans	2,556	4,304	3,121	194	10,175
Total	48,567	69,422	42,843	12,051	172,883
As a percentage of gross loans and advances to customers	0.32%	0.46%	0.29%	0.08%	1.15%

Overdue loans represent loans of which the whole or part of the principal or interest is overdue for 1 day or more.

(5) Packaged disposal of non-performing loans

For the year ended 31 December 2020, the total amount of non-performing loans sold through packaged disposal to external asset management companies was RMB24,830 million (for the year ended 31 December 2019: RMB28,902 million) of the Group.

(6) Write-off

According to the Group's write-off policy, it is required to continue to recover the bad debts that are written off. For the year ended 31 December 2020, the amount of loans and advances to customers that the Group has written off under litigation-related condition but still under enforcement was RMB28,575 million (for the year ended 31 December 2019: RMB29,128 million).

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

26 FINANCIAL INVESTMENTS

(1) Analysed by measurement

	Note	31 December 2020	31 December 2019
Financial assets measured at fair value through profit or loss	(a)	**577,952**	675,361
Financial assets measured at amortised cost	(b)	**4,505,243**	3,740,296
Financial assets measured at fair value through other comprehensive income	(c)	**1,867,458**	1,797,584
Total		**6,950,653**	6,213,241

(a) Financial assets measured at fair value through profit or loss

Analysed by nature

	Note	31 December 2020	31 December 2019
Held-for-trading purposes			
– Debt securities	(i)	**170,365**	229,946
– Equity instruments and funds	(ii)	**1,415**	940
		171,780	230,886
Financial assets designated as measured at fair value through profit or loss			
– Debt securities	(iii)	**–**	9,256
– Other debt instruments	(iv)	**61,180**	182,369
		61,180	191,625
Others			
– Credit investments	(v)	**14,202**	6,161
– Debt securities	(vi)	**115,571**	68,921
– Funds and others	(vii)	**215,219**	177,768
		344,992	252,850
Total		**577,952**	675,361

Analysed by type of issuers

Held-for-trading purposes

(i) Debt securities

	31 December 2020	31 December 2019
Government	**20,173**	8,392
Central banks	**–**	443
Policy banks	**51,723**	44,466
Banks and non-bank financial institutions	**33,769**	59,224
Enterprises	**64,700**	117,421
Total	**170,365**	229,946
Listed (Note)	**170,365**	229,503
– of which in Hong Kong	**712**	953
Unlisted	**–**	443
Total	**170,365**	229,946

Note: Debt securities traded on the China Domestic Interbank Bond Market are classified as "Listed".

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

26 FINANCIAL INVESTMENTS (CONTINUED)

(1) Analysed by measurement (continued)

(a) Financial assets measured at fair value through profit or loss (continued)

Analysed by type of issuers (continued)

(ii) Equity instruments and funds

	31 December 2020	31 December 2019
Banks and non-bank financial institutions	**681**	61
Enterprises	**734**	879
Total	**1,415**	940
Listed	**1,385**	940
– of which in Hong Kong	**629**	772
Unlisted	**30**	–
Total	**1,415**	940

Financial assets designated as measured at fair value through profit or loss

(iii) Debt securities

	31 December 2020	31 December 2019
Government	**–**	470
Enterprises	**–**	8,786
Total	**–**	9,256
Listed	**–**	1,111
– of which in Hong Kong	**–**	355
Unlisted	**–**	8,145
Total	**–**	9,256

(iv) Other debt instruments

	31 December 2020	31 December 2019
Banks and non-bank financial institutions	**32,150**	122,285
Enterprises	**29,030**	60,084
Total	**61,180**	182,369

Other debt instruments were mainly the deposits with banks and non-bank financial institutions, debt securities and credit assets invested by principal guaranteed wealth management products (Note 28(2)).

The amounts of changes in the fair value of these financial assets that were attributable to changes in credit risk were considered not significant during the year presented and cumulatively as at 31 December 2020 and 2019.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

26 FINANCIAL INVESTMENTS (CONTINUED)

(1) Analysed by measurement (continued)

(a) *Financial assets measured at fair value through profit or loss (continued)*

Analysed by type of issuers (continued)

Others

(v) Credit investments

	31 December 2020	31 December 2019
Banks and non-bank financial institutions	663	1,706
Enterprises	13,539	4,455
Total	14,202	6,161
Listed	643	–
– of which in Hong Kong	198	–
Unlisted	13,559	6,161
Total	14,202	6,161

(vi) Debt securities

	31 December 2020	31 December 2019
Policy banks	7,361	4,381
Banks and non-bank financial institutions	108,185	64,538
Enterprises	25	2
Total	115,571	68,921
L Listed (Note)	115,325	68,801
Unlisted	246	120
Total	115,571	68,921

Note: Debt securities traded on the China Domestic Interbank Bond Market are classified as "Listed".

(vii) Funds and others

	31 December 2020	31 December 2019
Banks and non-bank financial institutions	86,628	83,946
Enterprises	128,591	93,822
Total	215,219	177,768
Listed	74,164	67,357
– of which in Hong Kong	1,086	1,957
Unlisted	141,055	110,411
Total	215,219	177,768

There was no significant limitation on the ability of the Group to dispose of financial assets measured at FVPL.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

26 FINANCIAL INVESTMENTS (CONTINUED)

(1) Analysed by measurement (continued)

(b) Financial assets measured at amortised cost

Analysed by type of issuers

	31 December 2020	31 December 2019
Government	3,799,421	3,024,534
Central banks	5,231	463
Policy banks	300,679	361,084
Banks and non-bank financial institutions	130,946	107,407
Enterprises	177,534	157,683
Special government bond	49,200	49,200
Subtotal	4,463,011	3,700,371
Accrued interest	62,470	52,627
Gross balances	4,525,481	3,752,998
Allowances for impairment losses		
–Stage 1	(13,211)	(8,932)
–Stage 2	(282)	(134)
–Stage 3	(6,745)	(3,636)
Subtotal	(20,238)	(12,702)
Net balances	4,505,243	3,740,296
Listed (Note)	4,341,559	3,553,837
– of which in Hong Kong	7,747	7,836
Unlisted	163,684	186,459
Total	4,505,243	3,740,296
Market value of listed bonds	4,371,059	3,629,398

Note: Debt securities traded on the China Domestic Interbank Bond Market are classified as "Listed".

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

26 FINANCIAL INVESTMENTS (CONTINUED)

(1) Analysed by measurement (continued)

(c) Financial assets measured at fair value through other comprehensive income

Analysed by nature

	Note	31 December 2020	31 December 2019
Debt securities	(i)	**1,860,503**	1,791,553
Equity instruments	(ii)	**6,955**	6,031
Total		**1,867,458**	1,797,584

Analysed by type of issuers

(i) Debt securities

	31 December 2020	31 December 2019
Government	**1,159,963**	1,103,764
Central banks	**34,295**	39,844
Policy banks	**400,032**	346,478
Banks and non-bank financial institutions	**88,887**	107,524
Enterprises	**130,324**	135,769
Accumulated change of fair value charged in other comprehensive income	**21,231**	33,000
Subtotal	**1,834,732**	1,766,379
Accrued interest	**25,771**	25,174
Total	**1,860,503**	1,791,553
Listed (Note)	**1,785,650**	1,741,972
– of which in Hong Kong	**57,198**	56,100
Unlisted	**74,853**	49,581
Total	**1,860,503**	1,791,553

Note: Debt securities traded on the China Domestic Interbank Bond Market are classified as "Listed".

(ii) Equity instruments

	31 December 2020		31 December 2019	
	Fair value	Dividend income during the year	Fair value	Dividend income during the year
Equity instruments	**6,955**	**16**	6,031	36

For the year ended 31 December 2020 and 2019, the Group neither sold any of the investments above nor transferred any cumulative profit or loss in the equity.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

26 FINANCIAL INVESTMENTS (CONTINUED)

(2) Movements of allowances for impairment losses

(a) Financial assets measured at amortised cost

	Note	2020			
		Stage 1	**Stage 2**	**Stage 3**	**Total**
As at 1 January 2020		**8,932**	**134**	**3,636**	**12,702**
Transfers:					
Transfers in/(out) to Stage 1		**–**	**–**	**–**	**–**
Transfers in/(out) to Stage 2		**(3)**	**3**	**–**	**–**
Transfers in/(out) to Stage 3		**(38)**	**(14)**	**52**	**–**
Newly originated or purchased financial assets		**4,703**	**–**	**–**	**4,703**
Financial assets derecognised during the year		**(1,493)**	**(48)**	**(33)**	**(1,574)**
Remeasurements	(i)	**1,182**	**219**	**3,389**	**4,790**
Foreign exchange and other movements		**(72)**	**(12)**	**(299)**	**(383)**
As at 31 December 2020		**13,211**	**282**	**6,745**	**20,238**

	Note	2019			
		Stage 1	Stage 2	Stage 3	Total
As at 1 January 2019		5,171	509	1,155	6,835
Transfers:					
Transfers in/(out) to Stage 1		–	–	–	–
Transfers in/(out) to Stage 2		(15)	15	–	–
Transfers in/(out) to Stage 3		(7)	(407)	414	–
Newly originated or purchased financial assets		5,299	3	–	5,302
Financial assets derecognised during the year		(1,440)	(20)	–	(1,460)
Remeasurements	(i)	(125)	20	2,052	1,947
Foreign exchange and other movements		49	14	15	78
As at 31 December 2019		8,932	134	3,636	12,702

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

26 FINANCIAL INVESTMENTS (CONTINUED)

(2) Movements of allowances for impairment losses (continued)

(b) Financial assets measured at fair value through other comprehensive income

	Note	2020			
		Stage 1	**Stage 2**	**Stage 3**	**Total**
As at 1 January 2020		**3,580**	**–**	**–**	**3,580**
Transfers:					
Transfers in/(out) to Stage 1		–	–	–	–
Transfers in/(out) to Stage 2		(6)	6	–	–
Transfers in/(out) to Stage 3		–	–	–	–
Newly originated or purchased financial assets		1,490	–	–	1,490
Financial assets derecognised during the year		(1,896)	–	–	(1,896)
Remeasurements	(i)	157	5	–	162
Foreign exchange and other movements		9	–	–	9
As at 31 December 2020		**3,334**	**11**	**–**	**3,345**

	Note	2019			
		Stage 1	Stage 2	Stage 3	Total
As at 1 January 2019		2,090	–	–	2,090
Transfers:					
Transfers in/(out) to Stage 1		–	–	–	–
Transfers in/(out) to Stage 2		–	–	–	–
Transfers in/(out) to Stage 3		–	–	–	–
Newly originated or purchased financial assets		2,117	–	–	2,117
Financial assets derecognised during the year		(562)	–	–	(562)
Remeasurements	(i)	(58)	–	–	(58)
Foreign exchange and other movements		(7)	–	–	(7)
As at 31 December 2019		3,580	–	–	3,580

(i) Remeasurements mainly comprise the impact of changes in PD, LGD, EAD, and credit loss changes due to stage-transfer.

As at 31 December 2020, the Group's financial assets measured at amortised cost with carrying amount of RMB10,420 million (as at 31 December 2019: RMB7,774 million) were impaired and classified as Stage 3, financial assets measured at amortised cost with carrying amount of RMB2,047 million (as at 31 December 2019: RMB1,271 million) and financial assets measured at fair value through other comprehensive income with carrying amount of RMB1,528 million (as at 31 December 2019: Nil) were classified as Stage 2, and the remaining financial assets measured at amortised cost and financial assets measured at fair value through other comprehensive income were classified as Stage 1.

For the year ended 31 December 2020, the increase in the Group's Stage 1 financial assets due to newly originated or purchased financial assets amounted to RMB1,786,779 million (for the year ended 31 December 2019: RMB1,402,711 million), the decrease in Stage 1 financial assets due to derecognition amounted to RMB925,069 million (for the year ended 31 December 2019: RMB860,406 million), and there were no significant changes in the balances of financial assets classified as Stage 2 and 3. Both the amounts of financial assets transferred between stages and the amounts of financial assets with modifications of contractual cash flows that did not result in a derecognition were not significant.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

27 LONG-TERM EQUITY INVESTMENTS

(1) Investments in subsidiaries

(a) Investment balance

	Note	31 December 2020	31 December 2019
CCB Wealth Management Co., Ltd. ("CCB Wealth Management")		**15,000**	15,000
CCB Financial Asset Investment Co., Ltd. ("CCB Investment")		**12,000**	12,000
CCB Financial Leasing Co., Ltd. ("CCB Financial Leasing")	(i)	**11,163**	8,163
CCB Brazil Financial Holding – Investimentos e Participações Ltda.		**9,542**	9,542
CCB Trust Co., Ltd. ("CCB Trust")		**7,429**	7,429
CCB Life Insurance Co., Ltd. ("CCB Life")	(ii)	**6,962**	3,902
China Construction Bank (Europe) S.A. ("CCB Europe")	(iii)	**4,406**	1,629
China Construction Bank (London) Limited ("CCB London")		**2,861**	2,861
PT Bank China Construction Bank Indonesia Tbk ("CCB Indonesia")	(iv)	**2,215**	1,340
CCB Pension Management Co., Ltd. ("CCB Pension")		**1,955**	1,955
Sino-German Bausparkasse Co., Ltd. ("Sino-German Bausparkasse")		**1,502**	1,502
China Construction Bank (Malaysia) Berhad ("CCB Malaysia")		**1,334**	1,334
China Construction Bank (New Zealand) Limited ("CCB New Zealand")		**976**	976
China Construction Bank (Russia) Limited Liability Company ("CCB Russia")		**851**	851
Golden Fountain Finance Limited ("Golden Fountain")		**676**	676
CCB Principal Asset Management Co., Ltd. ("CCB Principal Asset Management")		**130**	130
CCB International Group Holdings Limited ("CCBIG")		**–**	–
Subtotal		**79,002**	69,290
Less: Allowance for impairment losses	(v)	**(8,110)**	–
Total		**70,892**	69,290

(i) In April 2020, the Bank increased capital of CCB Financial Leasing by RMB3,000 million with its own funds. CCB Financial Leasing has remained a wholly-owned subsidiary of the Bank.

(ii) The Bank injected RMB3,060 million capital into CCB Life using its own funds in March 2019 and completed the procedures for changing the registered capital of CCB Life in October 2020. The proportion of the Bank's shareholding in CCB Life remained unchanged.

(iii) In July 2020, the Bank injected EUR350 million capital into CCB Europe using its own funds. CCB Europe remained a wholly-owned subsidiary of the Bank after capital injection.

(iv) In December 2020, CCB Indonesia completed the public rights offering procedures. The Bank participated in this public rights offering to subscribe to additional shares using USD134 million of its own funds. The proportion of the Bank's shareholding in CCB Indonesia remained unchanged after the capital increase.

(v) The Group identified any indicators of impairment in long-term equity investments and assessed the recoverable amounts of investments showing impairment indicators. Specifically, the Bank's long-term equity investment in CCB Brazil Financial Holding – Investimentos e Participações Ltda. showed indicators of impairment. The Group estimated its recoverable amount based on the net amount of fair value less costs of disposal, and assessed the fair value using the net asset method.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

27 LONG-TERM EQUITY INVESTMENTS (CONTINUED)

(1) Investments in subsidiaries (continued)

(b) Except for CCB Indonesia, the major subsidiaries of the Group are unlisted enterprises, details of the investments in subsidiaries are as follows:

Name of company	Principal place of business	Particulars of issued and paid-up capital	Kind of legal entity	Principal activities	% of ownership directly held by the Bank	% of ownership indirectly held by the Bank	% of voting rights held by the Bank	Method of investment
CCB Wealth Management	Shenzhen, the PRC	RMB15,000 million	Company with Limited Liability	Wealth Management	100%	–	100%	Establishment
CCB Investment	Beijing, the PRC	RMB12,000 million	Company with Limited Liability	Investment	100%	–	100%	Establishment
CCB Financial Leasing	Beijing, the PRC	RMB11,000 million	Company with Limited Liability	Financial Leasing	100%	–	100%	Establishment
CCB Brazil Financial Holding – Investimentos e Participações Ltda.	Sao Paulo, Brasil	R$4,281 million	Company with Limited Liability	Investment	99.99%	0.01%	100%	Acquisition
CCB Trust	Anhui, the PRC	RMB10,500 million	Company with Limited Liability	Trust business	67%	–	67%	Acquisition
CCB Life	Shanghai, the PRC	RMB7,120 million	Company Limited by Shares	Insurance	51%	–	51%	Acquisition
CCB Europe	Luxembourg	EUR550 million	Company with Limited Liability	Commercial Banking	100%	–	100%	Establishment
CCB London	London, United Kingdom	US$200 million RMB1,500 million	Company with Limited Liability	Commercial Banking	100%	–	100%	Establishment
CCB Indonesia	Jakarta, Indonesia	IDR3,791,973 million	Company Limited by Shares	Commercial Banking	60%	–	60%	Acquisition
CCB Pension	Beijing, the PRC	RMB2,300 million	Company with Limited Liability	Pension Management	85%	–	85%	Establishment
Sino-German Bausparkasse	Tianjin, the PRC	RMB2,000 million	Company with Limited Liability	House savings	75.10%	–	75.10%	Establishment
CCB Malaysia	Kuala Lumpur, Malaysia	MYR823 million	Company with Limited Liability	Commercial Banking	100%	–	100%	Establishment
CCB New Zealand	Auckland, New Zealand	NZD199 million	Company with Limited Liability	Commercial Banking	100%	–	100%	Establishment
CCB Russia	Moscow, Russia	RUB4,200 million	Company with Limited Liability	Commercial Banking	100%	–	100%	Establishment
Golden Fountain	British Virgin Islands	US$50,000	Company with Limited Liability	Investment	100%	–	100%	Acquisition
CCB Principal Asset Management	Beijing, the PRC	RMB200 million	Company with Limited Liability	Fund management services	65%	–	65%	Establishment
CCBIG	Hong Kong, the PRC	HK$1	Company with Limited Liability	Investment	100%	–	100%	Establishment
CCB International (Holdings) Limited ("CCB International")	Hong Kong, the PRC	US$601 million	Company with Limited Liability	Investment	–	100%	100%	Acquisition
China Construction Bank (Asia) Corporation Limited ("CCB Asia")	Hong Kong, the PRC	HK$6,511 million RMB17,600 million	Company Limited by Shares	Commercial Banking	–	100%	100%	Acquisition
China Construction Bank (Brasil) Banco Múltiplo S/A. ("CCB Brasil")	Sao Paulo, Brasil	R$2,957 million	Company Limited by Shares	Commercial Banking	–	100%	100%	Acquisition

(c) As at 31 December 2020, the amount of the non-controlling interests of the subsidiaries was immaterial to the Group.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

27 LONG-TERM EQUITY INVESTMENTS (CONTINUED)

(2) Interests in associates and joint ventures

(a) The movements of the Group's interests in associates and joint ventures are as follows:

	2020	2019
As at 1 January	11,353	8,002
Increase in capital during the year	4,995	4,978
Decrease in capital during the year	(3,214)	(1,812)
Share of profits	895	249
Cash dividend receivable	(162)	(149)
Effect of exchange difference and others	(165)	85
As at 31 December	13,702	11,353

(b) Details of the interests in major associates and joint ventures are as follows:

Name of Company	Principal place of business	Particulars of issued and paid-up capital	Principal activities	% of ownership held	% of voting held	Total assets at year end	Total liabilities at year end	Revenue for the year	Net profit for the year
Guoxin Jianxin Equity Investment Fund (Chengdu) Partnership (Limited Partnership)	Chengdu, the PRC	RMB5,776 million	Equity investment	50.00%	50.00%	6,098	1	415	337
CCB Gold Investment Infrastructure Equity Investment Fund (Tianjin) Partnership (Limited Partnership)	Tianjin, the PRC	RMB3,500 million	Equity investment	48.57%	40.00%	3,719	–	156	156
Diamond String Limited	Hong Kong, the PRC	HK $10,000	Property investment	50.00%	50.00%	1,622	1,526	242	102
Maotai CCBT Private Equity Fund (Limited Partnership)	Guiyang, the PRC	RMB900 million	Investment management and consultancy	38.11%	40.00%	1,058	–	15	2
Shaanxi Yanchang Petroleum Finance Limited	Xi 'an, the PRC	RMB3,500 million	Settlement, loans and financial leasing	8.00%	20.00%	22,042	16,927	785	564

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

28 STRUCTURED ENTITIES

(1) Unconsolidated structured entities

Unconsolidated structured entities of the Group include trust plans, asset management plans, funds, asset-backed securities and wealth management products held for investment purposes, and non-principal guaranteed wealth management products, trust plans and funds, etc., which are issued or established by the Group for providing wealth management services to customers and earning management fees, commission and custodian fees in return.

As at 31 December 2020 and 2019, the assets recognised for the Group's interests in the unconsolidated structured entities above included related investment and management fee, commission and custodian fee receivables accrued. The related carrying amount presented in the line items in the consolidated statement of financial position and the maximum exposure were as follows:

	31 December 2020	31 December 2019
Financial investments		
Financial assets measured at fair value through profit or loss	93,206	85,564
Financial assets measured at amortised cost	41,407	65,178
Financial assets measured at fair value through other comprehensive income	703	729
Long-term equity investments	9,028	6,906
Other assets	2,840	3,185
Total	147,184	161,562

For the years ended 31 December 2020 and 2019, the income from these unconsolidated structured entities held by the Group presented in the line items in the consolidated statement of comprehensive income was as follows:

	2020	2019
Interest income	2,032	3,735
Fee and commission income	14,722	14,871
Net trading (loss)/gain	(126)	138
Dividend income	1,050	669
Net gain arising from investment securities	2,955	2,773
Share of profits of associates and joint ventures	660	163
Total	21,293	22,349

As at 31 December 2020, the balance of the non-principal guaranteed wealth management products set up by the Group amounted to RMB2,167,886 million (as at 31 December 2019: RMB1,968,483 million), and the balance of trust plans, funds and asset management plans issued or established by the Group amounted to RMB3,068,334 million (as at 31 December 2019: RMB2,989,536 million). For the year ended 31 December 2020, the Group also entered into a small number of resale agreements with the above-mentioned non-principal guaranteed wealth management products. These resale agreements transactions were conducted in accordance with market price or general commercial terms and conditions, and the gains or losses from such transactions had no significant impact on the Group.

(2) Consolidated structured entities

The consolidated structured entities of the Group are primarily the principal guaranteed wealth management products (Note 26(1)(a)(iv)) and certain asset management plans and trust plans.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

29 FIXED ASSETS

	Bank premises	Construction in progress	Equipment	Aircraft and vessels	Others	Total
Cost/Deemed cost						
As at 1 January 2020	137,641	16,726	57,893	30,810	48,141	291,211
Additions	2,299	5,993	5,636	5,604	3,425	22,957
Transfer in/(out)	2,749	(5,281)	48	–	2,484	–
Other movements	(1,455)	(196)	(10,827)	(1,716)	(7,216)	(21,410)
As at 31 December 2020	141,234	17,242	52,750	34,698	46,834	292,758
Accumulated depreciation						
As at 1 January 2020	(43,405)	–	(40,035)	(4,525)	(32,085)	(120,050)
Charge for the year	(4,676)	–	(6,444)	(1,654)	(4,578)	(17,352)
Other movements	326	–	10,552	307	6,456	17,641
As at 31 December 2020	(47,755)	–	(35,927)	(5,872)	(30,207)	(119,761)
Allowances for impairment losses (Note 35)						
As at 1 January 2020	(393)	(1)	–	(24)	(3)	(421)
Charge for the year	–	–	–	(79)	–	(79)
Other movements	1	–	–	7	–	8
As at 31 December 2020	(392)	(1)	–	(96)	(3)	(492)
Net carrying value						
As at 1 January 2020	93,843	16,725	17,858	26,261	16,053	170,740
As at 31 December 2020	93,087	17,241	16,823	28,730	16,624	172,505

	Bank premises	Construction in progress	Equipment	Aircraft and vessels	Others	Total
Cost/Deemed cost						
As at 1 January 2019	133,478	19,714	55,118	25,561	45,851	279,722
Additions	1,850	7,425	5,882	914	3,262	19,333
Transfer in/(out)	2,599	(8,938)	42	4,617	1,680	–
Other movements	(286)	(1,475)	(3,149)	(282)	(2,652)	(7,844)
As at 31 December 2019	137,641	16,726	57,893	30,810	48,141	291,211
Accumulated depreciation						
As at 1 January 2019	(38,948)	–	(37,362)	(3,408)	(30,006)	(109,724)
Charge for the year	(4,563)	–	(5,670)	(1,337)	(4,454)	(16,024)
Other movements	106	–	2,997	220	2,375	5,698
As at 31 December 2019	(43,405)	–	(40,035)	(4,525)	(32,085)	(120,050)
Allowances for impairment losses (Note 35)						
As at 1 January 2019	(406)	(1)	–	(14)	(3)	(424)
Charge for the year	–	–	–	(24)	(1)	(25)
Other movements	13	–	–	14	1	28
As at 31 December 2019	(393)	(1)	–	(24)	(3)	(421)
Net carrying value						
As at 1 January 2019	94,124	19,713	17,756	22,139	15,842	169,574
As at 31 December 2019	93,843	16,725	17,858	26,261	16,053	170,740

Notes:

(1) Other movements include disposals, retirements and exchange differences of fixed assets.

(2) As at 31 December 2020, the ownership documentation for the Group's bank premises with a net carrying value of RMB12,002 million (as at 31 December 2019: RMB15,688 million) was being finalised. However, management is of the view that the aforesaid matter would not affect the rights of the Group to these assets nor have any significant impact on the business operation of the Group.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

30 LAND USE RIGHTS

	2020	2019
Cost/Deemed cost		
As at 1 January	22,793	21,860
Additions	2	989
Disposals	(143)	(56)
As at 31 December	22,652	22,793
Amortisation		
As at 1 January	(7,919)	(7,349)
Charge for the year	(524)	(594)
Disposals	44	24
As at 31 December	(8,399)	(7,919)
Allowances for impairment losses (Note 35)		
As at 1 January	(136)	(138)
Disposals	1	2
As at 31 December	(135)	(136)
Net carrying value		
As at 1 January	14,738	14,373
As at 31 December	14,118	14,738

The Group's right-of-use assets include the above fully prepaid land use rights and other right-of-use assets disclosed in note 34(2).

31 INTANGIBLE ASSETS

	Software	Others	Total
Cost/Deemed cost			
As at 1 January 2020	11,698	1,423	13,121
Additions	2,075	131	2,206
Disposals	(279)	(79)	(358)
As at 31 December 2020	13,494	1,475	14,969
Amortisation			
As at 1 January 2020	(8,071)	(541)	(8,612)
Charge for the year	(1,277)	(77)	(1,354)
Disposals	248	37	285
As at 31 December 2020	(9,100)	(581)	(9,681)
Allowances for impairment losses (Note 35)			
As at 1 January 2020	–	(7)	(7)
Additions	–	(2)	(2)
Disposals	–	–	–
As at 31 December 2020	–	(9)	(9)
Net carrying value			
As at 1 January 2020	3,627	875	4,502
As at 31 December 2020	4,394	885	5,279

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

31 INTANGIBLE ASSETS (CONTINUED)

	Software	Others	Total
Cost/Deemed cost			
As at 1 January 2019	9,914	1,272	11,186
Additions	1,829	317	2,146
Disposals	(45)	(166)	(211)
As at 31 December 2019	11,698	1,423	13,121
Amortisation			
As at 1 January 2019	(7,154)	(402)	(7,556)
Charge for the year	(943)	(146)	(1,089)
Disposals	26	7	33
As at 31 December 2019	(8,071)	(541)	(8,612)
Allowances for impairment losses (Note 35)			
As at 1 January 2019	–	(8)	(8)
Additions	–	(1)	(1)
Disposals	–	2	2
As at 31 December 2019	–	(7)	(7)
Net carrying value			
As at 1 January 2019	2,760	862	3,622
As at 31 December 2019	3,627	875	4,502

32 GOODWILL

(1) The goodwill is mainly attributable to the expected synergies arising from the acquisition of CCB Asia, CCB Brasil and CCB Indonesia. The movements of the goodwill are as follows:

	2020	2019
As at 1 January	**2,809**	2,766
Effect of exchange difference	**(222)**	43
Allowances for impairment losses (Note 35)	**(377)**	–
As at 31 December	**2,210**	2,809

(2) Impairment test for CGU containing goodwill

The Group calculated the recoverable amounts of CGUs (including goodwill) in accordance with accounting policies. The Group estimated present values of future cash flows of CGUs using expected future cash flow projections based on financial forecasts approved by management. The average growth rates used by the Group were consistent with the forecasts in industry reports, while the discount rates reflected specific risks relating to relevant segments. The Group estimated net amounts of fair value less costs of disposal based on net assets within the CGUs.

As at 31 December 2020, the Group's goodwill impairment provision amounted to RMB377 million (as at 31 December 2019: Nil), mainly due to goodwill impairment of CCB Brasil CGU.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

33 DEFERRED TAX

	31 December 2020	31 December 2019
Deferred tax assets	92,950	72,314
Deferred tax liabilities	(1,551)	(457)
Total	91,399	71,857

(1) Analysed by nature

	31 December 2020		31 December 2019	
	Deductible/ (taxable) temporary differences	Deferred tax assets/ (liabilities)	Deductible/ (taxable) temporary differences	Deferred tax assets/ (liabilities)
Deferred tax assets				
– Fair value adjustments	(19,059)	(4,700)	(35,948)	(9,167)
– Allowances for impairment losses	406,810	101,782	331,279	82,330
– Employee benefits	15,331	3,801	17,513	4,348
– Others	(32,582)	(7,933)	(21,871)	(5,197)
Total	370,500	92,950	290,973	72,314
Deferred tax liabilities				
– Fair value adjustments	(5,910)	(1,283)	(1,717)	(336)
– Others	(1,469)	(268)	(885)	(121)
Total	(7,379)	(1,551)	(2,602)	(457)

(2) Movements of deferred tax

	Fair value adjustments	Allowances for impairment losses	Employee benefits	Others	Total
As at 1 January 2020	(9,503)	82,330	4,348	(5,318)	71,857
Recognised in profit or loss	192	19,452	(547)	(2,883)	16,214
Recognised in other comprehensive income	3,328	–	–	–	3,328
As at 31 December 2020	(5,983)	101,782	3,801	(8,201)	91,399
As at 1 January 2019	(6,657)	64,823	5,276	(5,197)	58,245
Recognised in profit or loss	678	17,507	(928)	(121)	17,136
Recognised in other comprehensive income	(3,524)	–	–	–	(3,524)
As at 31 December 2019	(9,503)	82,330	4,348	(5,318)	71,857

The Group did not have significant unrecognised deferred tax as at the end of the reporting period.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

34 OTHER ASSETS

	Note	31 December 2020	31 December 2019
Repossessed assets	(1)		
– Buildings		1,458	1,705
– Land use rights		115	156
– Others		421	719
		1,994	2,580
Clearing and settlement accounts		23,004	26,889
Right-of-use assets	(2)	25,982	24,460
Fee and commission receivables		22,405	18,629
Policyholder account assets and accounts receivable of insurance business		10,435	7,581
Leasehold improvements		2,632	2,992
Deferred expenses		1,299	1,336
Others		156,412	114,453
Gross balance		244,163	198,920
Allowances for impairment losses (Note 35)			
– Repossessed assets		(1,197)	(1,353)
– Others		(4,238)	(3,440)
Net balance		238,728	194,127

(1) For the year ended 31 December 2020, the original cost of repossessed assets disposed of by the Group amounted to RMB652 million (for the year ended 31 December 2019: RMB649 million). The Group intends to dispose of repossessed assets through various methods including auction, competitive bidding and transfer.

(2) Right-of-use assets

	Bank premises	Others	Total
Cost			
As at 1 January 2020	30,610	104	30,714
Additions	10,617	14	10,631
Other movements	(2,542)	(38)	(2,580)
As at 31 December 2020	38,685	80	38,765
Accumulated depreciation			
As at 1 January 2020	(6,221)	(33)	(6,254)
Charge for the year	(7,669)	(26)	(7,695)
Other movements	1,145	21	1,166
As at 31 December 2020	(12,745)	(38)	(12,783)
Net carrying value			
As at 1 January 2020	24,389	71	24,460
As at 31 December 2020	25,940	42	25,982

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

34 OTHER ASSETS (CONTINUED)

(2) Right-of-use assets (continued)

	Bank premises	Others	Total
Cost			
As at 1 January 2019	21,686	66	21,752
Additions	10,598	44	10,642
Other movements	(1,674)	(6)	(1,680)
As at 31 December 2019	30,610	104	30,714
Accumulated depreciation			
As at 1 January 2019	–	–	–
Charge for the year	(6,584)	(33)	(6,617)
Other movements	363	–	363
As at 31 December 2019	(6,221)	(33)	(6,254)
Net carrying value			
As at 1 January 2019	21,686	66	21,752
As at 31 December 2019	24,389	71	24,460

The Group's right-of-use assets include the above assets and land use rights disclosed in note 30.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

35 MOVEMENTS OF ALLOWANCES FOR IMPAIRMENT LOSSES

	Note	2020 As at 1 January	2020 Charge/ (reversal) for the year	2020 Transfer out	2020 Write-off and others	2020 As at 31 December
Deposits with banks and non-bank financial institutions	21	**218**	**80**	**–**	**–**	**298**
Precious metals		**38**	**(29)**	**–**	**–**	**9**
Placements with banks and non-bank financial institutions	22	**225**	**86**	**(1)**	**–**	**310**
Financial assets held under resale agreements	24	**63**	**104**	**–**	**–**	**167**
Loans and advances to customers	25	**482,158**	**167,448**	**(36,160)**	**(57,383)**	**556,063**
Financial assets measured at amortised cost	26(2)(a)	**12,702**	**7,919**	**(383)**	**–**	**20,238**
Fixed assets	29	**421**	**79**	**–**	**(8)**	**492**
Land use rights	30	**136**	**–**	**–**	**(1)**	**135**
Intangible assets	31	**7**	**2**	**–**	**–**	**9**
Goodwill	32	**–**	**377**	**–**	**–**	**377**
Other assets	34	**4,793**	**3,016**	**–**	**(2,374)**	**5,435**
Total		**500,761**	**179,082**	**(36,544)**	**(59,766)**	**583,533**

	Note	2019 As at 1 January	2019 (Reversal)/ charge for the year	2019 Transfer (out)/in	2019 Write-off and others	2019 As at 31 December
Deposits with banks and non-bank financial institutions	21	230	(12)	–	–	218
Precious metals		72	(34)	–	–	38
Placements with banks and non-bank financial institutions	22	114	114	(3)	–	225
Financial assets held under resale agreements	24	44	19	–	–	63
Loans and advances to customers	25	417,623	148,266	(34,653)	(49,078)	482,158
Financial assets measured at amortised cost	26(2)(a)	6,835	5,789	78	–	12,702
Long-term equity investments	27	41	–	(41)	–	–
Fixed assets	29	424	25	–	(28)	421
Land use rights	30	138	–	–	(2)	136
Intangible assets	31	8	1	–	(2)	7
Other assets	34	3,937	2,588	–	(1,732)	4,793
Total		429,466	156,756	(34,619)	(50,842)	500,761

Transfer (out)/in includes exchange differences.

36 BORROWINGS FROM CENTRAL BANKS

	31 December 2020	31 December 2019
Mainland China	**740,904**	487,204
Overseas	**31,815**	56,447
Accrued interest	**8,451**	5,782
Total	**781,170**	549,433

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

37 DEPOSITS FROM BANKS AND NON-BANK FINANCIAL INSTITUTIONS

(1) Analysed by type of counterparties

	31 December 2020	31 December 2019
Banks	**248,404**	167,383
Non-bank financial institutions	**1,689,533**	1,498,901
Accrued interest	**5,697**	6,414
Total	**1,943,634**	1,672,698

(2) Analysed by geographical sectors

	31 December 2020	31 December 2019
Mainland China	**1,797,413**	1,508,483
Overseas	**140,524**	157,801
Accrued interest	**5,697**	6,414
Total	**1,943,634**	1,672,698

38 PLACEMENTS FROM BANKS AND NON-BANK FINANCIAL INSTITUTIONS

(1) Analysed by type of counterparties

	31 December 2020	31 December 2019
Banks	**331,259**	476,574
Non-bank financial institutions	**17,103**	42,576
Accrued interest	**1,276**	2,403
Total	**349,638**	521,553

(2) Analysed by geographical sectors

	31 December 2020	31 December 2019
Mainland China	**171,124**	261,632
Overseas	**177,238**	257,518
Accrued interest	**1,276**	2,403
Total	**349,638**	521,553

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

39 FINANCIAL LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2020	31 December 2019
Principal guaranteed wealth management products	56,961	178,770
Financial liabilities related to precious metals	31,453	31,065
Structured financial instruments	165,665	71,762
Total	254,079	281,597

The Group's financial liabilities measured at fair value through profit or loss are those designated as measured at fair value through profit or loss. As at the end of the reporting period, the difference between the fair value of these financial liabilities and the contractual payables at maturity was not material. The amounts of changes in the fair value of these financial liabilities that were attributable to changes in credit risk were considered not significant during the year presented and cumulatively as at 31 December 2020 and 2019.

40 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

Financial assets sold under repurchase agreements by underlying assets are shown as follows:

	31 December 2020	31 December 2019
Debt securities		
– Government bonds	42,111	103,380
– Debt securities issued by policy banks, banks and non-bank financial institutions	10,488	7,754
– Corporate bonds	1,478	40
Subtotal	54,077	111,174
Discounted bills	1,408	418
Others	1,198	2,920
Accrued interest	42	146
Total	56,725	114,658

41 DEPOSITS FROM CUSTOMERS

	31 December 2020	31 December 2019
Demand deposits		
– Corporate customers	6,354,893	6,001,053
– Personal customers	4,716,452	4,136,591
Subtotal	11,071,345	10,137,644
Time deposits (including call deposits)		
– Corporate customers	3,596,898	3,239,657
– Personal customers	5,670,385	4,781,485
Subtotal	9,267,283	8,021,142
Accrued interest	276,348	207,507
Total	20,614,976	18,366,293

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

41 DEPOSITS FROM CUSTOMERS (CONTINUED)

Deposits from customers include:

		31 December 2020	31 December 2019
(1)	Pledged deposits		
	– Deposits for acceptance	63,427	57,367
	– Deposits for guarantee	42,540	52,351
	– Deposits for letter of credit	17,760	11,593
	– Others	190,387	180,387
	Total	314,114	301,698
(2)	Outward remittance and remittance payables	17,542	19,805

42 ACCRUED STAFF COSTS

	Note	2020			
		As at 1 January	Increased	Decreased	As at 31 December
Salaries, bonuses, allowances and subsidies		24,025	71,356	(72,151)	23,230
Housing funds		355	6,809	(6,913)	251
Union running costs and employee education costs		4,983	2,624	(1,843)	5,764
Post-employment benefits	(1)	3,970	12,261	(15,635)	596
Early retirement benefits		1,396	32	(423)	1,005
Compensation to employees for termination of employment relationship		2	5	(7)	–
Others	(2)	4,344	11,281	(11,011)	4,614
Total		39,075	104,368	(107,983)	35,460

	Note	2019			
		As at 1 January	Increased	Decreased	As at 31 December
Salaries, bonuses, allowances and subsidies		23,673	69,862	(69,510)	24,025
Housing funds		182	6,524	(6,351)	355
Union running costs and employee education costs		3,531	2,948	(1,496)	4,983
Post-employment benefits	(1)	2,523	14,308	(12,861)	3,970
Early retirement benefits		1,520	40	(164)	1,396
Compensation to employees for termination of employment relationship		2	6	(6)	2
Others	(2)	4,782	12,154	(12,592)	4,344
Total		36,213	105,842	(102,980)	39,075

The Group had no overdue balance of accrued staff costs as at the end of the reporting period.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

42 ACCRUED STAFF COSTS (CONTINUED)

(1) Post-employment benefits

(a) *Defined contribution plans*

	2020			
	As at 1 January	Increased	Decreased	As at 31 December
Basic pension insurance	**608**	**6,551**	**(6,630)**	**529**
Unemployment insurance	**42**	**225**	**(218)**	**49**
Annuity contribution	**3,683**	**5,485**	**(8,294)**	**874**
Total	**4,333**	**12,261**	**(15,142)**	**1,452**

	2019			
	As at 1 January	Increased	Decreased	As at 31 December
Basic pension insurance	761	8,994	(9,147)	608
Unemployment insurance	39	299	(296)	42
Annuity contribution	1,881	4,987	(3,185)	3,683
Total	2,681	14,280	(12,628)	4,333

(b) *Defined benefit plans – Supplementary retirement benefits*

The Group's obligations in respect of the supplementary retirement benefits as at the end of the reporting period were calculated using the projected unit credit method and reviewed by an external independent actuary, Towers Watson Management Consulting (Shenzhen) Co., Ltd.

	Present value of defined benefit plan obligations		Fair value of plan assets		Net liabilities/(assets) of defined benefit plans	
	2020	2019	**2020**	2019	**2020**	2019
As at 1 January	**5,776**	6,139	**6,139**	6,297	**(363)**	(158)
Cost of the net defined benefit liability in profit or loss						
– Interest costs	**169**	188	**183**	194	**(14)**	(6)
Remeasurements of the defined benefit liability in other comprehensive income						
– Actuarial (gains)/ losses	**(105)**	28	**–**	–	**(105)**	28
– Returns on plan assets	**–**	–	**374**	227	**(374)**	(227)
Other changes						
– Benefits paid	**(574)**	(579)	**(574)**	(579)	**–**	–
As at 31 December	**5,266**	5,776	**6,122**	6,139	**(856)**	(363)

Interest cost was recognised in operating expenses.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

42 ACCRUED STAFF COSTS (CONTINUED)

(1) Post-employment benefits (continued)

(b) Defined benefit plans – Supplementary retirement benefits (continued)

(i) Principal actuarial assumptions of the Group as at the end of the reporting period were as follows:

	31 December 2020	31 December 2019
Discount rate	3.25%	3.25%
Health care cost increase rate	7.00%	7.00%
Average expected future lifetime of eligible employees	11.4 years	11.0 years

Mortality assumptions are based on China Life Insurance Mortality Table (2010-2013). The Table published historical statistics in China.

(ii) The sensitivity of the present value of supplementary retirement benefit obligations to changes in the weighted principal assumption is:

	Impact on present value of supplementary retirement benefit obligations	
	Increase in assumption by 0.25%	Decrease in assumption by 0.25%
Discount rate	(102)	106
Health care cost increase rate	41	(39)

(iii) As at 31 December 2020, the weighted average duration of supplementary retirement benefit obligations of the Group was 7.9 years (as at 31 December 2019: 8.0 years).

(iv) Plan assets of the Group are as follows:

	31 December 2020	31 December 2019
Cash and cash equivalents	315	198
Equity instruments	1,007	595
Debt instruments	4,726	5,239
Others	74	107
Total	6,122	6,139

(2) Accrued staff costs – others mainly include employee welfare, medical insurance, maternity insurance and employment injury insurance.

43 TAXES PAYABLE

	31 December 2020	31 December 2019
Income tax	72,174	75,388
Value added tax	9,701	8,783
Others	2,286	2,464
Total	84,161	86,635

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

44 PROVISIONS

	Note	31 December 2020	31 December 2019
Expected credit losses from off-balance sheet credit business	(1)	**31,833**	35,479
Expected losses from other businesses	(2)	**22,281**	7,464
Total		**54,114**	42,943

(1) Movements of the provision – expected credit losses on off-balance sheet credit business:

	Note	2020			
		Stage 1	**Stage 2**	**Stage 3**	**Total**
As at 1 January 2020		**24,773**	**4,401**	**6,305**	**35,479**
Transfers:					
Transfers in/(out) to Stage 1		**13**	**(13)**	**–**	**–**
Transfers in/(out) to Stage 2		**(236)**	**248**	**(12)**	**–**
Transfers in/(out) to Stage 3		**(10)**	**(46)**	**56**	**–**
Newly originated		**20,706**	**–**	**–**	**20,706**
Matured		**(15,227)**	**(3,586)**	**(5,865)**	**(24,678)**
Remeasurements	(a)	**(3,539)**	**3,005**	**860**	**326**
As at 31 December 2020		**26,480**	**4,009**	**1,344**	**31,833**

	Note	2019			
		Stage 1	Stage 2	Stage 3	Total
As at 1 January 2019		22,344	5,971	2,909	31,224
Transfers:					
Transfers in/(out) to Stage 1		675	(675)	–	–
Transfers in/(out) to Stage 2		(199)	206	(7)	–
Transfers in/(out) to Stage 3		(172)	(21)	193	–
Newly originated		18,072	–	–	18,072
Matured		(14,106)	(3,373)	(1,891)	(19,370)
Remeasurements	(a)	(1,841)	2,293	5,101	5,553
As at 31 December 2019		24,773	4,401	6,305	35,479

(a) Remeasurements comprise the impact of changes in PD, LGD or EAD; changes in model assumptions and methodology; credit loss changes due to stage-transfer; and the impact of exchange rate changes.

(2) Other businesses include off-balance sheet businesses other than off-balance sheet credit business, outstanding litigations and precious metals leasing business.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

45 DEBT SECURITIES ISSUED

	Note	31 December 2020	31 December 2019
Certificates of deposit issued	(1)	**537,050**	709,383
Bonds issued	(2)	**125,871**	127,863
Subordinated bonds issued	(3)	**79,986**	81,694
Eligible Tier 2 capital bonds issued	(4)	**193,049**	153,703
Accrued interest		**4,241**	3,932
Total		**940,197**	1,076,575

(1) Certificates of deposit issued were mainly issued by the head office, overseas branches, CCB Europe and CCB New Zealand.

(2) Bonds issued

Issue date	Maturity date	Interest rate per annum	Issue place	Currency	31 December 2020	31 December 2019
05/09/2014	05/09/2021	4.00%	Taiwan	RMB	**600**	600
18/11/2014	18/11/2021	3.95%	Taiwan	RMB	**1,000**	1,000
18/11/2014	18/11/2024	4.08%	Taiwan	RMB	**600**	600
20/01/2015	20/01/2020	3.125%	Hong Kong	USD	**–**	4,873
11/02/2015	11/02/2020	1.50%	Luxembourg	EUR	**–**	3,901
18/06/2015	18/06/2020	3-month New Zealand benchmark interest rate +1.2%	Auckland	NZD	**–**	117
28/07/2015	28/07/2020	3.25%	Hong Kong	USD	**–**	3,481
29/12/2015	27/01/2020	3.80%	Auckland	NZD	**–**	94
30/03/2016	30/03/2026	4.08%	Mainland China	RMB	**3,500**	3,500
31/05/2016	31/05/2021	2.75%	Hong Kong	USD	**1,951**	2,088
18/08/2016	18/09/2020	2.95%	Auckland	NZD	**–**	482
18/10/2016	18/10/2020	3.05%	Auckland	NZD	**–**	7
21/10/2016	21/10/2021	2.25%	Hong Kong	USD	**4,579**	4,331
09/11/2016	09/11/2021	3.05%	Mainland China	RMB	**800**	800
17/02/2017	17/02/2020	0.63%	Luxembourg	EUR	**–**	3,903
31/05/2017	29/05/2020	3M LIBOR+0.77%	Hong Kong	USD	**–**	8,353
13/06/2017	13/06/2022	2.75%	Hong Kong	USD	**3,925**	4,177
25/10/2017	25/10/2022	3.15%	Hong Kong	USD	**654**	696
25/10/2017	27/10/2020	2.20%	Hong Kong	USD	**–**	84
26/10/2017	26/10/2020	2.08%	Singapore	SGD	**–**	2,586
09/11/2017	09/11/2022	3.93%	Auckland	NZD	**708**	702
04/12/2017	04/12/2020	2.29%	Hong Kong	USD	**–**	5,569
04/12/2017	04/12/2020	2.75%	Hong Kong	USD	**–**	3,481
04/12/2017	04/12/2022	3.00%	Hong Kong	USD	**2,616**	2,784
13/03/2018	13/03/2021	3.20%	Auckland	NZD	**47**	47
17/04/2018	26/03/2021	3M LIBOR +0.75%	Hong Kong	USD	**523**	557
18/04/2018	18/04/2021	4.88%	Mainland China	RMB	**6,000**	6,000
30/04/2018	30/04/2021	3M LIBOR +0.75%	Hong Kong	USD	**131**	139
04/05/2018	04/05/2021	3M LIBOR +0.80%	Hong Kong	USD	**164**	174
08/06/2018	08/06/2021	3M LIBOR +0.73%	Hong Kong	USD	**5,887**	6,265
08/06/2018	08/06/2023	3M LIBOR +0.83%	Hong Kong	USD	**3,925**	4,177
19/06/2018	19/06/2023	4.01%	Auckland	NZD	**472**	468
12/07/2018	12/07/2023	3M LIBOR +1.25%	Hong Kong	USD	**2,616**	2,785
20/07/2018	20/07/2021	4.48%	Mainland China	RMB	**3,000**	3,000
21/08/2018	19/06/2023	4.005%	Auckland	NZD	**165**	164
23/08/2018	23/08/2021	4.25%	Mainland China	RMB	**2,500**	2,500
21/09/2018	21/09/2020	2.643%	Singapore	SGD	**–**	1,552
24/09/2018	24/09/2021	3M LIBOR +0.75%	Hong Kong	USD	**6,541**	6,961
24/09/2018	24/09/2021	3M EURIBOR +0.60%	Luxembourg	EUR	**4,022**	3,903
20/12/2018	20/12/2021	3M LIBOR +0.75%	Auckland	USD	**654**	696

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

45 DEBT SECURITIES ISSUED (CONTINUED)

(2) Bonds issued (continued)

Issue date	Maturity date	Interest rate per annum	Issue place	Currency	31 December 2020	31 December 2019
24/12/2018	24/12/2020	3M LIBOR +0.70%	Hong Kong	USD	–	1,114
16/05/2019	16/05/2024	3.50%	Hong Kong	USD	**2,603**	2,788
16/05/2019	16/05/2029	3.88%	Hong Kong	USD	**1,308**	1,392
26/06/2019	24/06/2022	0.21%	Japan	JPY	**1,268**	1,281
26/08/2019	26/08/2022	3.30%	Mainland China	RMB	**6,300**	6,300
26/08/2019	26/08/2024	3.40%	Mainland China	RMB	**3,000**	3,000
11/09/2019	16/05/2024	3.50%	Hong Kong	USD	**1,962**	2,088
12/09/2019	12/08/2022	3M LIBOR +0.68%	Auckland	USD	**654**	696
22/10/2019	22/10/2022	0.05%	Luxembourg	EUR	**4,022**	3,903
24/10/2019	24/10/2024	3M LIBOR +0.77%	Hong Kong	USD	**4,383**	4,873
22/11/2019	22/11/2024	2.393%	Auckland	NZD	**401**	398
10/12/2019	10/11/2022	3-month New Zealand benchmark interest rate +0.88%	Auckland	NZD	**425**	421
20/12/2019	20/06/2022	3M LIBOR +0.63%	Luxembourg	USD	**1,967**	2,087
16/03/2020	15/03/2023	2.68%	Mainland China	RMB	**6,000**	–
16/03/2020	15/03/2025	2.75%	Mainland China	RMB	**5,000**	–
19/03/2020	19/03/2022	2.95%	Hong Kong	RMB	**802**	–
21/07/2020	21/07/2025	1.99%	Hong Kong	USD	**2,950**	–
25/09/2020	25/09/2023	0.954%	Auckland	NZD	**708**	–
28/09/2020	28/09/2025	1.78%	Hong Kong	USD	**1,308**	–
28/09/2020	28/09/2030	2.55%	Hong Kong	USD	**654**	–
27/10/2020	29/10/2023	3.50%	Mainland China	RMB	**20,000**	–
03/11/2020	05/11/2023	3.70%	Mainland China	RMB	**2,600**	–
Total nominal value					**125,895**	127,938
Less: Unamortised issuance costs					**(24)**	(75)
Carrying value as at year end					**125,871**	127,863

(3) Subordinated bonds issued

The carrying value of the Group's subordinated bonds issued upon the approval of the PBOC, the CBIRC and Central Bank of Brazil is as follows:

Issue date	Maturity date	Interest rate per annum	Currency	Note	31 December 2020	31 December 2019
27/04/2010	27/04/2020	8.50%	USD	(a)	–	1,720
03/11/2011	07/11/2026	5.70%	RMB	(b)	**40,000**	40,000
20/11/2012	22/11/2027	4.99%	RMB	(c)	**40,000**	40,000
Total nominal value					**80,000**	81,720
Less: Unamortised issuance cost					**(14)**	(26)
Carrying value					**79,986**	81,694

(a) The subordinated bonds were issued by CCB Brasil, and expired on 27 April 2020.

(b) The Group has an option to redeem the bonds on 7 November 2021, subject to an approval from relevant authority.

(c) The Group has an option to redeem the bonds on 22 November 2022, subject to an approval from relevant authority.

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45 DEBT SECURITIES ISSUED (CONTINUED)

(4) Eligible Tier 2 capital bonds issued

Issue date	Maturity date	Interest rate per annum	Currency	Note	31 December 2020	31 December 2019
18/08/2014	18/08/2029	5.98%	RMB	(a)	**20,000**	20,000
13/05/2015	13/05/2025	3.88%	USD	(b)	**–**	13,923
21/12/2015	21/12/2025	4.00%	RMB	(c)	**–**	24,000
25/09/2018	25/09/2028	4.86%	RMB	(d)	**43,000**	43,000
29/10/2018	29/10/2028	4.70%	RMB	(e)	**40,000**	40,000
27/02/2019	27/02/2029	4.25%	USD	(f)	**12,100**	12,879
24/06/2020	24/06/2030	2.45%	USD	(g)	**13,081**	–
10/09/2020	14/09/2030	4.20%	RMB	(h)	**65,000**	–
Total nominal value					**193,181**	153,802
Less: Unamortised issuance cost					**(132)**	(99)
Carrying value as at year end					**193,049**	153,703

(a) The Group has an option to redeem the bonds on 18 August 2024, subject to approval from the relevant authority. These eligible Tier 2 capital bonds have the write-down feature of a Tier 2 capital instrument, which allows the Bank to write down the entire principal of the bonds when a regulatory triggering event occurs. Any accumulated unpaid interest will not be paid either.

(b) The Group has chosen to exercise the option to redeem all the bonds on 13 May 2020.

(c) The Group has chosen to exercise the option to redeem all the bonds on 21 December 2020.

(d) The Group has an option to redeem the bonds on 25 September 2023, subject to an approval from relevant authority. These eligible Tier 2 capital bonds have the write-down feature of a Tier 2 capital instrument, which allows the Bank to write down the entire principal of the bonds when a regulatory triggering event occurs. Any accumulated unpaid interest will not be paid either.

(e) The Group has an option to redeem the bonds on 29 October 2023, subject to an approval from relevant authority. These eligible Tier 2 capital bonds have the write-down feature of a Tier 2 capital instrument, which allows the Bank to write down the entire principal of the bonds when a regulatory triggering event occurs. Any accumulated unpaid interest will not be paid either.

(f) The Group has an option to redeem the bonds on 27 February 2024, subject to an approval from relevant authority. If they are not redeemed by the Group, the interest rate will be reset on 27 February 2024 and increase by 1.88% on the basis of five-year USD treasury benchmark applicable on the interest reset date. These eligible Tier 2 capital bonds have the write-down feature of a Tier 2 capital instrument, which allows the Bank to write down the entire principal of the bonds when a regulatory triggering event occurs. Any accumulated unpaid interest will not be paid either.

(g) The Group has an option to redeem the bonds on 24 June 2025, subject to an approval from relevant authority. If they are not redeemed by the Group, the interest rate will be reset on 24 June 2025 and increase by 2.15% on the basis of five-year USD treasury benchmark applicable on the interest reset date. These eligible Tier 2 capital bonds have the write-down feature of a Tier 2 capital instrument, which allows the Bank to write down the entire principal of the bonds when a regulatory triggering event occurs. Any accumulated unpaid interest will not be paid either.

(h) The Group has an option to redeem the bonds on 14 September 2025, subject to an approval from relevant authority. These eligible Tier 2 capital bonds have the write-down feature of a Tier 2 capital instrument, which allows the Bank to write down the entire principal of the bonds when a regulatory triggering event occurs. Any accumulated unpaid interest will not be paid either.

46 OTHER LIABILITIES

	Note	31 December 2020	31 December 2019
Insurance related liabilities		**172,327**	147,121
Clearing and settlement accounts		**93,031**	34,275
Payment and collection clearance accounts		**47,169**	41,265
Lease liabilities	(1)	**23,591**	22,123
Deferred income		**17,894**	20,408
Capital expenditure payable		**9,673**	9,717
Cash pledged and rental income received in advance		**8,850**	9,007
Dormant accounts		**7,195**	6,871
Accrued expenses		**5,225**	4,921
Others		**160,285**	119,727
Total		**545,240**	415,435

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46 OTHER LIABILITIES (CONTINUED)

(1) Lease liabilities

Maturity analysis – undiscounted analysis

	31 December 2020	31 December 2019
Within one year	**7,037**	6,559
Between one year and five years	**13,975**	15,339
More than five years	**7,031**	3,722
Total undiscounted lease liabilities	**28,043**	25,620
Lease liabilities	**23,591**	22,123

47 SHARE CAPITAL

	31 December 2020	31 December 2019
Listed in Hong Kong (H shares)	**240,417**	240,417
Listed in Mainland China (A shares)	**9,594**	9,594
Total	**250,011**	250,011

All H and A shares are ordinary shares, have a par value of RMB1 per share and rank pari passu with the same rights and benefits.

48 OTHER EQUITY INSTRUMENTS

(1) Preference shares

(a) *Preference shares outstanding as at the end of the reporting period*

						Total amount				
Financial instrument outstanding	Issuance date	Classification	Initial interest rate	Issuance price	Quantity (million shares)	Currency	Original currency	(RMB)	Maturity date	Redemption/ conversion conditions
2017 Domestic Preference Shares	21 December 2017	Equity instruments	4.75%	RMB100 per share	600	RMB	60,000	60,000	No maturity date	None
Less: Issuance fee								(23)		
Carrying amount								59,977		

(b) *The key terms*

Dividend

The nominal dividend rate of the Domestic Preference Shares is adjusted on a phase-by-phase basis. It is the sum of the benchmark rate plus the fixed interest spread, and is adjusted every five years. The fixed interest spread is determined as the nominal dividend rate set for issuance less the benchmark rate at the time of issuance, and will not be subject to future adjustments. The dividends for domestic preference shares are non-cumulative. The Bank has the right to cancel dividend distribution on Domestic Preference Shares, and the cancellation does not constitute a default event. The Bank may, at its discretion, use the cancelled dividends to repay other indebtedness due and payable. If the Bank cancels all or part of the dividends on the Domestic Preference Shares, the Bank shall make no profit distribution to shareholders holding ordinary shares from the day after the cancellation proposal is adopted by the General Shareholders' Meeting to the day when full distribution of dividends is resumed. The cancellation of dividends on Domestic Preference Shares will not constitute other restrictions to the Bank except for the distribution of dividends to ordinary shareholders.

The dividends on the Domestic Preference Shares are distributed annually.

Redemption

The Bank may, subject to CBIRC approval and compliance with the redemption preconditions, redeem in whole or in part of the Domestic Preference Shares after at least five years from the completion date of the issuance (i.e., 27 December 2017). The redemption period begins from the first day of the redemption and ends on the day when all Domestic Preference Shares are redeemed or converted. The redemption price of the Domestic Preference Shares shall be their issue price plus any dividends accrued but unpaid in the current period.

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48 OTHER EQUITY INSTRUMENTS (CONTINUED)

(1) Preference shares (continued)

(b) *The key terms (continued)*

Compulsory conversion of preference shares

If an Additional Tier 1 Capital Instrument Trigger Event occurs, i.e., the Core Tier 1 Capital Adequacy Ratio of the Bank has fallen to 5.125% or below, the Bank has the right to, without prior consent from the shareholders of the Domestic Preference Shares and as agreed, convert all or part of the Domestic Preference Shares issued and outstanding to ordinary A shares, to restore the Bank's Core Tier 1 Capital Adequacy Ratio to above the trigger point (i.e., 5.125%). In the case of partial conversion, the Domestic Preference Shares shall be subject to the same proportion and conditions of conversion. Once Domestic Preference Shares are converted to ordinary A shares, they shall not be converted back to preference shares under any circumstances.

When a Tier 2 Capital Instrument Trigger Event occurs, the Bank has the right to, without prior consent of the shareholders of the Domestic Preference Shares and as agreed, convert all the Domestic Preference Shares issued and outstanding to ordinary A shares. Once Domestic Preference Shares are converted to ordinary A shares, they shall not be converted back to preference shares under any circumstances. A Tier 2 Capital Instrument Trigger Event is the earlier of the following two scenarios: (i) the CBIRC having decided that without a conversion or write-off of the Bank's capital, the Bank would become non-viable; and (ii) the relevant authorities having decided that a public sector injection of capital or equivalent support is necessary, without which the Bank would become non-viable. When the compulsory conversion of preference shares occurs, the Bank shall report to the CBIRC for approval and decision, and perform the announcement obligation according to the regulations of the Securities Law and China Securities Regulatory Commission ("CSRC").

The Bank classifies preference shares issued as an equity instrument and presented as an equity item on the statement of financial position. Capital raised from the issuance of the above preference shares, after deduction of the expenses relating to the issuance, was wholly used to replenish the Bank's additional tier 1 capital and to increase its capital adequacy ratios.

(c) *Changes in preference shares outstanding*

Financial instrument outstanding	1 January 2020		Increase/(Decrease)		31 December 2020	
	Amount (million shares)	Carrying value	Amount (million shares)	Carrying value	Amount (million shares)	Carrying value
2015 Offshore Preference Shares	152.5	19,659	(152.5)	(19,659)	–	–
2017 Domestic Preference Shares	600	59,977	–	–	600	59,977
Total	752.5	79,636	(152.5)	(19,659)	600	59,977

Note: Offshore preference shares have been redeemed on 16 December 2020.

(2) Perpetual bonds

(a) *Perpetual bonds outstanding at the end of the year*

Financial instrument outstanding	Issuance date	Classification	Initial interest rate	Issuance price	Quantity (million pieces)	Currency	Total Amount	Maturity date	Redemption/ write-down conditions
Undated Additional Tier 1 Capital Bonds	13 November 2019	Equity instruments	4.22%	100 per unit	400	RMB	40,000	No maturity date	None
Less: Issuance fee							(9)		
Carrying amount							39,991		

(b) *The key terms*

Distribution rate and distribution payment

The distribution rate of the Undated Additional Tier 1 Capital Bonds (or "the Bonds") will be adjusted at defined intervals, with a distribution rate adjustment period every 5 years since the payment settlement date. In any distribution rate adjusted period, the distribution payments on the Bonds will be made at a prescribed fixed distribution rate. The distribution rate is determined by a benchmark rate plus a fixed spread.

48 OTHER EQUITY INSTRUMENTS (CONTINUED)

(2) Perpetual bonds (continued)

(b) The key terms (continued)

Distribution rate and distribution payment (continued)

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 holders of the Bonds. The Bank may, at its sole discretion, use the proceeds from the cancelled distributions to meet other obligations as they fall due. In the case of cancelling any distributions on the Bonds, no matter in whole or in part, the Bank shall not make any distribution to the ordinary shareholders from the next day following the resolution being approved by the general shareholders meeting, until its decision to resume the distribution payments in whole to the holders of the Bonds. The distributions on the Bonds are non-cumulative, namely, upon cancellation, any amount of distribution unpaid to the holders of the Bonds in the applicable period will not accumulate or compound to the subsequent distribution period thereafter.

The distributions of the Bonds will be payable annually.

Conditional redemption rights of the Bank

From the fifth anniversary since the issuance of the Bonds, the Bank may redeem whole or part of the Bonds on each distribution payment date (including the fifth distribution payment date since the issuance). If, after the issuance, the 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 Bonds.

The exercise of the Bank's redemption right shall be subject to the consent of the CBIRC and the satisfaction of the following preconditions: (i)the Bank shall use capital instruments of the same or better quality to replace the instruments to be redeemed, and such replacement shall only be carried out at conditions which are sustainable for the income capacity; (ii)or the capital position of the Bank after the redemption right is exercised will remain well above the regulatory capital requirements stipulated by the CBIRC.

Write-down/write-off clauses

Upon the occurrence of an 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 CBIRC but without the need for the consent of the holders of the Bonds, to write down whole or part of the aggregate amount of the 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 Bonds then issued and outstanding shall be written down on a pro rata basis, according to the outstanding amount, with all other Additional Tier 1 Capital instruments with equivalent write-down clauses of the Bank.

Upon the occurrence of a Tier 2 Capital Trigger Event, the Bank has the right to write off in whole, without the need for the consent of the holders of the Bonds, the aggregate amount of the Bonds then issued and outstanding. A Tier 2 Capital Trigger Event refers to the earlier of the following events: (i)the CBIRC having decided that the Bank would become non-viable without a write-off; (ii)any relevant authority having decided that a public sector injection of capital or equivalent support is necessary, without which the Bank would become non-viable. Upon write-off of the bonds, such bonds are to be permanently cancelled and will not be restored under any circumstances.

Subordination

The claims in respect of the Bonds will be subordinated to the claims of depositors, general creditors, and subordinated indebtedness that ranks senior to the Bonds; will rank in priority to all classes of shares held by the Bank's shareholders and rank pari passu with the claims in respect of any other additional tier 1 capital instruments of the Bank that rank pari passu with the Bonds.

The Bank classifies the Bonds issued as an equity instrument and presented as an equity item on the statement of financial position. Capital raised from the issuance of the Bonds, after deduction of the expenses relating to the issuance, was wholly used to replenish the Bank's additional tier 1 capital and to increase its capital adequacy ratios.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

48 OTHER EQUITY INSTRUMENTS (CONTINUED)

(2) Perpetual bonds (continued)

(c) Changes in perpetual bonds outstanding

	1 January 2020		Increase/(Decrease)		31 December 2020	
Financial instrument outstanding	Amount (million pieces)	Carrying value	Amount (million pieces)	Carrying value	Amount (million pieces)	Carrying value
Undated Additional Tier 1 Capital Bonds	400	39,991	–	–	400	39,991
Total	400	39,991	–	–	400	39,991

(3) Interests attributable to the holders of equity instruments

Items	31 December 2020	31 December 2019
1. Total equity attributable to equity holders of the Bank	2,364,808	2,216,257
(1) Equity attributable to ordinary equity holders of the Bank	2,264,840	2,096,630
(2) Equity attributable to other equity holders of the Bank	99,968	119,627
Of which: net profit	5,624	3,962
dividends received	5,624	3,962
2. Total equity attributable to non-controlling interests	24,545	18,870
(1) Equity attributable to non-controlling interests of ordinary shares	21,092	15,417
(2) Equity attributable to non-controlling interests of other equity instruments	3,453	3,453

49 CAPITAL RESERVE

	31 December 2020	31 December 2019
Share premium	134,263	134,537

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50 OTHER COMPREHENSIVE INCOME

	Other comprehensive income of the statement of financial position			Other comprehensive income of the statement of comprehensive income 2020				
	1 January 2020	Net-of-tax amount attributable to equity shareholders of the Bank	31 December 2020	The amount before income taxes	Less: Reclassification adjustments included in profit or loss due to disposals	Less: Income taxes	Net-of-tax amount attributable to equity shareholders of the Bank	Net-of-tax amount attributable to non-controlling interests
(1) Other comprehensive income that will not be reclassified to profit or loss								
Remeasurements of post-employment benefit obligations	(207)	479	272	479	–	–	479	–
Fair value changes of equity instruments designated as measured at fair value through other comprehensive income	1,043	(279)	764	(372)	–	93	(279)	–
Others	580	24	604	24	–	–	24	–
(2) Other comprehensive income that may be reclassified subsequently to profit or loss								
Fair value changes of debt instruments measured at fair value through other comprehensive income	25,974	(9,602)	16,372	(11,924)	(655)	2,980	(9,602)	3
Allowances for credit losses of debt instruments measured at fair value through other comprehensive income	3,901	(762)	3,139	(1,017)	–	255	(762)	–
Net loss on cash flow hedges	(239)	(61)	(300)	(61)	–	–	(61)	–
Exchange difference on translating foreign operations	934	(6,737)	(5,803)	(6,720)	–	–	(6,737)	17
Total	31,986	(16,938)	15,048	(19,591)	(655)	3,328	(16,938)	20

	Other comprehensive income of the statement of financial position			Other comprehensive income of the statement of comprehensive income 2019				
	1 January 2019	Net-of-tax amount attributable to equity shareholders of the Bank	31 December 2019	The amount before income taxes	Less: Reclassification adjustments included in profit or loss due to disposals	Less: Income taxes	Net-of-tax amount attributable to equity shareholders of the Bank	Net-of-tax amount attributable to non-controlling interests
(1) Other comprehensive income that will not be reclassified to profit or loss								
Remeasurements of post-employment benefit obligations	(406)	199	(207)	199	–	–	199	–
Fair value changes of equity instruments designated as measured at fair value through other comprehensive income	599	444	1,043	592	–	(148)	444	–
Others	521	59	580	59	–	–	59	–
(2) Other comprehensive income that may be reclassified subsequently to profit or loss								
Fair value changes of debt instruments measured at fair value through other comprehensive income	17,165	8,809	25,974	11,893	(234)	(2,829)	8,809	21
Allowances for credit losses of debt instruments measured at fair value through other comprehensive income	2,277	1,624	3,901	2,171	–	(547)	1,624	–
Net gain/(loss) on cash flow hedges	53	(292)	(239)	(292)	–	–	(292)	–
Exchange difference on translating foreign operations	(1,758)	2,692	934	2,682	–	–	2,692	(10)
Total	18,451	13,535	31,986	17,304	(234)	(3,524)	13,535	11

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51 SURPLUS RESERVE

Surplus reserves consist of statutory surplus reserve fund and discretionary surplus reserve fund.

The Bank is required to allocate 10% of its net profit, as determined under the Accounting Standards for Business Enterprises and other relevant requirements issued by the MOF on 15 February 2006. After making appropriations to the statutory surplus reserve fund, the Bank may also allocate its net profit to the discretionary surplus reserve fund upon approval by shareholders in Annual General Meetings.

52 GENERAL RESERVE

The general reserve of the Group is set up based upon the requirements of:

	Note	31 December 2020	31 December 2019
MOF	(1)	**341,307**	305,825
Hong Kong Banking Ordinance	(2)	**2,124**	2,124
Other regulatory bodies in Mainland China	(3)	**6,104**	5,753
Other overseas regulatory bodies		**693**	687
Total		**350,228**	314,389

(1) Pursuant to relevant regulations issued by the MOF, the Bank has to appropriate a certain amount of its net profit as general reserve to cover potential losses against its assets. In accordance with the "Regulation on Management of Financial Institutions for Reserves" (Cai Jin [2012] No. 20) issued by the MOF on 30 March 2012, the general reserve balance for financial institutions should not be lower than 1.5% of the ending balance of gross risk-bearing assets.

(2) Pursuant to the requirements of the Hong Kong Banking Ordinance, the Group's banking operations in Hong Kong are required to set aside amounts in a regulatory reserve in respect of losses which it will, or may, incur on loans and advances to customers, in addition to impairment losses recognised in accordance with the accounting policies of the Group. Transfers to and from the regulatory reserve are made through retained earnings.

(3) Pursuant to the relevant regulatory requirements in Mainland China, the Bank's subsidiaries are required to appropriate a certain amount of its net profit as general reserve.

53 PROFIT DISTRIBUTION

In the Annual General Meeting held on 19 June 2020, the shareholders approved the profit distribution for the year ended 31 December 2019. The Bank appropriated cash dividend for the year ended 31 December 2019 in an aggregate amount of RMB80,004 million.

In the Board of Directors' Meeting, held on 28 August 2020, the directors approved the payment of dividends to offshore preference shareholders and domestic preference shareholders. The dividends for the offshore preference shares distributed were US$157,583,333.33 (including taxes), calculated using the initial dividend rate of 4.65% (after taxes) as set in the terms and conditions, including US$141,825,000 actually paid to offshore preference shareholders after the deduction of US$15,758,333.33 of withholding income tax and the dividends equaled RMB1,086 million. The dividends for domestic preference shares distributed were RMB2,850 million, calculated using the nominal dividend rate of 4.75% (including taxes) as set in the terms and conditions.

On 15 November 2020, according to the initial annual interest rate of 4.22% before the first interest rate reset date determined by the terms of the Undated Additional Tier 1 Capital Bonds, the interest on perpetual bonds issued by the bank was RMB1,688 million.

On 26 March 2021, Board of Directors proposed the following profit distribution scheme for the year ended 31 December 2020:

(1) Appropriate statutory surplus reserve amounted to RMB26,817 million, based on 10% of the net profit of the Bank amounted to RMB268,174 million for the year ended 31 December 2020 (for the year ended 31 December 2019: RMB25,947 million). It has been recorded in "Surplus reserve" as at the balance sheet date.

(2) Appropriate general reserve amounted to RMB35,482 million, pursuant to relevant regulations issued by MOF (for the year ended 31 December 2019: RMB33,824 million).

(3) Declare cash dividend RMB0.326 per share before tax and in aggregation amount of RMB81,504 million to all shareholders (for the year ended 31 December 2019: RMB0.320 per share and RMB80,004 million in aggregation). Proposed dividends as at the balance sheet date are not recognised as a liability.

Above proposed profit distribution scheme is subject to the approval of the shareholders in the Annual General Meeting. Cash dividends will be distributed to all shareholders registered at the relevant date upon approval.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

54 NOTES TO THE STATEMENT OF CASH FLOWS

Cash and cash equivalents

	31 December 2020	31 December 2019
Cash	**49,068**	60,791
Surplus deposit reserves with central banks	**434,199**	398,676
Demand deposits with banks and non-bank financial institutions	**75,870**	91,819
Time deposits with banks and non-bank financial institutions with original maturity with or within three months	**112,194**	281,348
Placements with banks and non-bank financial institutions with original maturity with or within three months	**207,600**	219,706
Total	**878,931**	1,052,340

55 TRANSFERRED FINANCIAL ASSETS

The Group enters into transactions in the normal course of business by which it transfers recognised financial assets to third parties or to structured entities. In some cases where these transferred financial assets qualify for derecognition, the transfers may give rise to full or partial derecognition of the financial assets concerned. In other cases where the transferred assets do not qualify for derecognition as the Group has retained substantially all the risks and rewards of these assets, the Group continued to recognise the transferred assets.

Securities lending transactions

Transferred financial assets that do not qualify for derecognition 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 2020, the carrying value of debt securities lent to counterparties was RMB4,010 million (as at 31 December 2019: RMB5,291 million).

Credit asset securitisation transactions

The Group enters into securitisation transactions in its 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 holding subordinated tranches which would 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, otherwise the financial assets are derecognised.

As at 31 December 2020, loans with an original carrying amount of RMB829,400 million (as at 31 December 2019: RMB608,956 million) have been securitised by the Group under arrangements in which the Group retained a continuing involvement in such assets. As at 31 December 2020, the carrying amount of assets that the Group continued to recognise was RMB88,625 million (as at 31 December 2019: RMB66,306 million). As at 31 December 2020, the carrying amount of continuing involvement assets and liabilities that the Group continued to recognise was RMB88,951 million (as at 31 December 2019: RMB66,507 million).

As at 31 December 2020, the carrying amount of asset-backed securities held in the securitisation transaction derecognised by the Group was RMB1,340 million (as at 31 December 2019: RMB292 million), and its maximum loss exposure approximates to the carrying amount.

56 OPERATING SEGMENTS

The Group has presented the operating segments in a manner consistent with the way in which information is reported internally to the Group's chief operating decision makers for the purposes of resource allocation and performance assessment. Measurement of segment assets and liabilities and segment income and results is based on the Group's accounting policies.

Transactions between segments are conducted under normal commercial terms and conditions. Internal charges and transfer prices are determined with reference to market rates and have been reflected in the performance of each segment. Net interest income and expense arising from internal charges and transfer pricing adjustments are referred to as "internal net interest income/expense". Interest income and expense earned from third parties are referred to as "external net interest income/expense".

Segment revenues, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment income and results are determined before intra-group transactions are eliminated as part of the consolidation process. Segment capital expenditure is the total cost incurred during the period to acquire fixed assets, intangible assets and other long-term assets.

56 OPERATING SEGMENTS (CONTINUED)

(1) Geographical segments

The Group operates principally in Mainland China with branches covering all provinces, autonomous regions and municipalities directly under the central government, and several subsidiaries located in Mainland China. The Group also has bank branch operations in Hong Kong, Macau, Taiwan, Singapore, Frankfurt, Johannesburg, Tokyo, Seoul, New York, Sydney, Ho Chi Minh City, Luxembourg, Toronto, London, Zurich, Dubai, Chile, Astana, Labuan, Auckland, etc., and certain subsidiaries operating in Hong Kong, London, Moscow, Luxembourg, British Virgin Islands, Auckland, Jakarta, San Paulo and Kuala Lumpur, etc.

In presenting information on the basis of geographical segments, operating income is allocated based on the location of the branches and subsidiaries that generate the income. Segment assets, liabilities and capital expenditure are allocated based on their geographical location.

Geographical segments of the Group, as defined for management reporting purposes, are defined as follows:

– "Yangtze River Delta" refers to the following areas where the tier-1 branches and the subsidiary of the Bank operate: Shanghai Municipality, Jiangsu Province, Zhejiang Province, City of Ningbo and City of Suzhou;

– "Pearl River Delta" refers to the following areas where the tier-1 branches and the subsidiary of the Bank operate: Guangdong Province, City of Shenzhen, Fujian Province and City of Xiamen;

– "Bohai Rim" refers to the following areas where the tier-1 branches and the subsidiaries of the Bank operate: Beijing Municipality, Shandong Province, Tianjin Municipality, Hebei Province and City of Qingdao;

– the "Central" region refers to the following areas where the tier-1 branches and the subsidiary of the Bank operate: Shanxi Province, Guangxi Autonomous Region, Hubei Province, Henan Province, Hunan Province, Jiangxi Province, Hainan Province and Anhui Province;

– the "Western" region refers to the following areas where the tier-1 branches of the Bank operate: Sichuan Province, Chongqing Municipality, Guizhou Province, Yunnan Province, Tibet Autonomous Region, Inner Mongolia Autonomous Region, Shaanxi Province, Gansu Province, Qinghai Province, Ningxia Autonomous Region and Xinjiang Autonomous Region; and

– the "Northeastern" region refers to the following areas where the tier-1 branches of the Bank operate: Liaoning Province, Jilin Province, Heilongjiang Province and City of Dalian.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

56 OPERATING SEGMENTS (CONTINUED)

(1) Geographical segments (continued)

	Twelve months ended 31 December 2020								
	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central	Western	Northeastern	Head Office	Overseas	Total
External net interest income	64,500	60,987	36,662	76,140	62,290	7,353	257,261	10,716	575,909
Internal net interest income/ (expense)	27,451	23,726	46,961	28,551	29,472	18,001	(177,338)	3,176	–
Net interest income	91,951	84,713	83,623	104,691	91,762	25,354	79,923	13,892	575,909
Net fee and commission income	16,620	24,764	18,337	15,896	11,799	4,050	20,056	3,060	114,582
Net trading gain/(loss)	96	204	174	324	104	16	4,126	(731)	4,313
Dividend income	88	7	1,927	650	10	–	89	411	3,182
Net gain/(loss) arising from investment securities	4,273	(778)	(787)	(586)	(40)	(617)	3,200	1,100	5,765
Net (loss)/gain on derecognition of financial assets measured at amortised cost	(13)	10	29	–	–	–	4,612	11	4,649
Other operating (expense)/ income, net	(3,576)	377	1,569	64	1,585	7	3,503	2,295	5,824
Operating income	109,439	109,297	104,872	121,039	105,220	28,810	115,509	20,038	714,224
Operating expenses	(28,835)	(24,624)	(29,637)	(34,160)	(30,153)	(11,692)	(15,452)	(14,021)	(188,574)
Credit impairment losses	(22,994)	(31,459)	(25,623)	(45,476)	(19,352)	(12,688)	(29,696)	(6,203)	(193,491)
Other impairment losses	6	(54)	(205)	–	(6)	(65)	4,343	(457)	3,562
Share of (losses)/profits of associates and joint ventures	(3)	–	260	579	–	–	–	59	895
Profit before tax	57,613	53,160	49,667	41,982	55,709	4,365	74,704	(584)	336,616
Capital expenditure	3,280	1,401	2,638	2,559	1,899	1,031	5,321	7,363	25,492
Depreciation and amortisation	3,662	3,230	4,453	4,921	4,025	1,806	2,215	1,870	26,182
	31 December 2020								
Segment assets	4,873,490	3,942,366	6,667,011	4,416,305	3,985,433	1,451,185	10,577,145	1,433,729	37,346,664
Long-term equity investments	604	–	4,850	7,196	–	–	–	1,052	13,702
	4,874,094	3,942,366	6,671,861	4,423,501	3,985,433	1,451,185	10,577,145	1,434,781	37,360,366
Deferred tax assets									92,950
Elimination									(9,321,062)
Total assets									28,132,254
Segment liabilities	4,836,646	3,915,742	6,596,879	4,397,877	3,963,977	1,453,094	8,585,097	1,313,100	35,062,412
Deferred tax liabilities									1,551
Elimination									(9,321,062)
Total liabilities									25,742,901
Off-balance sheet credit commitments	608,353	588,398	693,095	648,284	446,579	162,120	–	266,701	3,413,530

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

56 OPERATING SEGMENTS (CONTINUED)

(1) Geographical segments (continued)

	Twelve months ended 31 December 2019								
	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central	Western	Northeastern	Head Office	Overseas	Total
External net interest income	58,955	56,235	41,545	64,405	56,390	10,442	236,542	12,552	537,066
Internal net interest income/ (expense)	19,231	16,158	36,168	26,827	25,367	13,445	(136,338)	(858)	–
Net interest income	78,186	72,393	77,713	91,232	81,757	23,887	100,204	11,694	537,066
Net fee and commission income	15,962	23,057	18,340	16,666	11,305	4,180	18,693	2,695	110,898
Net trading gain	97	202	180	188	111	6	8,319	17	9,120
Dividend income	77	5	138	30	11	–	74	849	1,184
Net gain/(loss) arising from investment securities	4,022	(255)	(26)	331	(416)	326	4,294	817	9,093
Net gain/(loss) on derecognition of financial assets measured at amortised cost	2	–	205	(1)	–	–	2,785	368	3,359
Other operating (expense)/ income, net	(1,177)	545	1,199	423	1,179	301	209	4,602	7,281
Operating income	97,169	95,947	97,749	108,869	93,947	28,700	134,578	21,042	678,001
Operating expenses	(28,961)	(24,439)	(29,414)	(34,827)	(30,911)	(12,046)	(14,972)	(12,562)	(188,132)
Credit impairment losses	(15,250)	(17,040)	(34,529)	(34,405)	(28,665)	(8,122)	(22,166)	(2,823)	(163,000)
Other impairment losses	(31)	(29)	(250)	(28)	49	(27)	(169)	(36)	(521)
Share of profits of associates and joint ventures	–	–	8	225	–	–	–	16	249
Profit before tax	52,927	54,439	33,564	39,834	34,420	8,505	97,271	5,637	326,597
Capital expenditure	2,345	1,665	2,970	3,375	2,670	1,026	3,065	4,767	21,883
Depreciation and amortisation	3,516	3,066	3,802	4,489	3,756	1,739	2,044	1,515	23,927
	31 December 2019								
Segment assets	4,749,944	3,767,856	5,570,438	4,480,717	3,670,832	1,286,929	9,745,744	1,722,267	34,994,727
Long-term equity investments	1	–	3,764	6,971	–	–	–	617	11,353
	4,749,945	3,767,856	5,574,202	4,487,688	3,670,832	1,286,929	9,745,744	1,722,884	35,006,080
Deferred tax assets									72,314
Elimination									(9,642,133)
Total assets									25,436,261
Segment liabilities	4,738,703	3,754,627	5,473,747	4,488,214	3,678,278	1,290,772	7,817,032	1,601,437	32,842,810
Deferred tax liabilities									457
Elimination									(9,642,133)
Total liabilities									23,201,134
Off-balance sheet credit commitments	546,411	506,947	640,521	557,471	407,151	149,396	–	277,910	3,085,807

56 OPERATING SEGMENTS (CONTINUED)

(2) Business segments

Business segments, as defined for management reporting purposes, are as follows:

Corporate banking

This segment represents the provision of a range of financial products and services to corporations, government agencies and financial institutions. The products and services include corporate loans, trade financing, deposit taking and wealth management services, agency services, financial consulting and advisory services, cash management services, remittance and settlement services, custody services and guarantee services, etc.

Personal banking

This segment represents the provision of a range of financial products and services to individual customers. The products and services comprise personal loans, deposit taking and wealth management services, card business, remittance services and agency services, etc.

Treasury business

This segment covers the Group's treasury operations. The treasury enters into inter-bank money market transactions, repurchase and resale transactions, and invests in debt securities. It also trades in derivatives and foreign currencies for its own account. The treasury carries out customer-driven derivatives, foreign currency and precious metal trading. Its function also includes the management of the Group's overall liquidity position, including the issuance of debt securities.

Others

These represent equity investments and the revenues, results, assets and liabilities of overseas branches and subsidiaries.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

56 OPERATING SEGMENTS (CONTINUED)

(2) Business segments (continued)

	Twelve months ended 31 December 2020				
	Corporate banking	Personal banking	Treasury business	Others	Total
External net interest income	187,158	174,543	190,605	23,603	575,909
Internal net interest income/(expense)	69,181	92,384	(152,742)	(8,823)	–
Net interest income	256,339	266,927	37,863	14,780	575,909
Net fee and commission income	35,390	57,586	15,804	5,802	114,582
Net trading (loss)/gain	(1,656)	(37)	4,313	1,693	4,313
Dividend income	–	–	1	3,181	3,182
Net (loss)/gain arising from investment securities	(5,746)	(2,512)	5,729	8,294	5,765
Net gain on derecognition of financial assets measured at amortised cost	–	4,338	274	37	4,649
Other operating income, net	66	834	2,308	2,616	5,824
Operating income	284,393	327,136	66,292	36,403	714,224
Operating expenses	(71,198)	(90,202)	(10,485)	(16,689)	(188,574)
Credit impairment losses	(146,460)	(30,887)	(4,219)	(11,925)	(193,491)
Other impairment losses	(120)	–	4,327	(645)	3,562
Share of profits of associates and joint ventures	–	–	–	895	895
Profit before tax	66,615	206,047	55,915	8,039	336,616
Capital expenditure	6,179	8,725	762	9,826	25,492
Depreciation and amortisation	9,294	13,124	1,146	2,618	26,182
	31 December 2020				
Segment assets	9,235,872	7,409,563	10,077,510	1,472,784	28,195,729
Long-term equity investments	–	–	–	13,702	13,702
	9,235,872	7,409,563	10,077,510	1,486,486	28,209,431
Deferred tax assets					92,950
Elimination					(170,127)
Total assets					28,132,254
Segment liabilities	11,502,039	10,639,882	1,693,095	2,076,461	25,911,477
Deferred tax liabilities					1,551
Elimination					(170,127)
Total liabilities					25,742,901
Off-balance sheet credit commitments	2,115,619	1,031,210	–	266,701	3,413,530

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

56 OPERATING SEGMENTS (CONTINUED)

(2) Business segments (continued)

	Twelve months ended 31 December 2019				
	Corporate banking	Personal banking	Treasury business	Others	Total
External net interest income	183,972	147,983	183,827	21,284	537,066
Internal net interest income/(expense)	51,169	63,416	(107,464)	(7,121)	–
Net interest income	235,141	211,399	76,363	14,163	537,066
Net fee and commission income	32,376	56,312	14,628	7,582	110,898
Net trading (loss)/gain	(398)	(42)	3,712	5,848	9,120
Dividend income	–	–	2	1,182	1,184
Net (loss)/gain arising from investment securities	(2,835)	(2,921)	12,119	2,730	9,093
Net (loss)/gain on derecognition of financial assets measured at amortised cost	(13)	2,665	132	575	3,359
Other operating income, net	36	594	2,365	4,286	7,281
Operating income	264,307	268,007	109,321	36,366	678,001
Operating expenses	(68,178)	(91,230)	(12,045)	(16,679)	(188,132)
Credit impairment losses	(123,164)	(28,135)	(5,506)	(6,195)	(163,000)
Other impairment losses	(271)	–	(77)	(173)	(521)
Share of profits of associates and joint ventures	–	–	–	249	249
Profit before tax	72,694	148,642	91,693	13,568	326,597
Capital expenditure	5,888	8,890	945	6,160	21,883
Depreciation and amortisation	8,097	12,225	1,300	2,305	23,927
	31 December 2019				
Segment assets	8,132,225	6,658,229	9,070,449	1,739,892	25,600,795
Long-term equity investments	–	–	–	11,353	11,353
	8,132,225	6,658,229	9,070,449	1,751,245	25,612,148
Deferred tax assets					72,314
Elimination					(248,201)
Total assets					25,436,261
Segment liabilities	10,629,081	9,174,974	1,414,808	2,230,015	23,448,878
Deferred tax liabilities					457
Elimination					(248,201)
Total liabilities					23,201,134
Off-balance sheet credit commitments	1,789,423	1,018,474	–	277,910	3,085,807

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

57 ENTRUSTED LENDING BUSINESS

As at the end of the reporting period, the entrusted loans and entrusted funds were as follows:

	31 December 2020	31 December 2019
Entrusted loans	3,572,599	3,219,935
Entrusted funds	3,572,599	3,219,935

58 PLEDGED ASSETS

(1) Assets pledged as securities

The Group's collaterals for liabilities or contingent liabilities include financial assets such as securities and bills, which mainly serve as collaterals for repurchase agreements, derivative contracts and local statutory requirements. As at 31 December 2020, the carrying values of the Group's financial assets pledged as collaterals amounted to approximately RMB1,137,581 million(31 December 2019: RMB923,623 million).

(2) Collateral accepted as securities for assets

As part of the resale agreements, the Group has received securities that were allowed to sell or repledge in the absence of default by their owners. As at 31 December 2020, 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 2019: RMB8,589 million).

59 COMMITMENTS AND CONTINGENT LIABILITIES

(1) Credit commitments

Credit commitments take the form of undrawn loan facilities which are approved and contracted, unutilised credit card limits, financial guarantees, letters of credit, etc. The Group assesses and makes allowance for any probable losses accordingly.

The contractual amounts of loan commitments and credit card overdraft commitments represent the cash outflows should the contracts be fully drawn upon. The amounts of guarantees and letters of credit represent the maximum potential loss that would be recognised if counterparties failed completely to perform as contracted. Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers.

As credit commitments may expire without being drawn upon, the contractual amounts set out in the following table do not represent the expected future cash outflows.

	31 December 2020	31 December 2019
Loan commitments		
– with an original maturity within one year	94,762	94,491
– with an original maturity of one year or over	488,350	373,227
Credit card commitments	1,068,582	1,063,718
	1,651,694	1,531,436
Bank acceptances	278,231	207,578
Financing guarantees	46,656	61,876
Non-financing guarantees	1,236,368	1,125,462
Sight letters of credit	43,329	36,629
Usance letters of credit	141,600	119,211
Others	15,652	3,615
Total	3,413,530	3,085,807

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

59 COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

(2) Credit risk-weighted amount

The credit risk-weighted amount refers to the amount as computed in accordance with the rules set out by the CBIRC and depends on the status of the counterparty and the maturity characteristics.

	31 December 2020	31 December 2019
Credit risk-weighted amount of contingent liabilities and commitments	**1,108,129**	1,050,190

(3) Capital commitments

As at the end of the reporting period, the Group had capital commitments as follows:

	31 December 2020	31 December 2019
Contracted for	**15,004**	20,077

(4) Underwriting obligations

As at 31 December 2020, there was no unexpired underwriting commitment of the Group (as at 31 December 2019: RMB60 million).

(5) Government bond redemption obligations

As an underwriting agent of PRC government bonds, the Group has the responsibility to buy back those bonds sold by it should the holders decide to early redeem the bonds held. The redemption price for the bonds at any time before their maturity date is based on the coupon value plus any interest unpaid and accrued up to the redemption date. Accrued interest payables to the bond holders are calculated in accordance with relevant rules of the MOF and the PBOC. The redemption price may be different from the fair value of similar instruments traded at the redemption date.

The redemption obligations, which represent the nominal value of government bonds underwritten and sold by the Group, but not yet matured as at 31 December 2020, were RMB74,435 million (as at 31 December 2019: RMB86,794 million).

(6) Outstanding litigations and disputes

As at 31 December 2020, the Group was the defendant in certain pending litigations and disputes with gross claims of RMB9,424 million (as at 31 December 2019: RMB9,593 million). Provisions have been made for the estimated losses arising from such litigations based upon the opinions of the Group's internal and external legal counsels (Note 44). The Group considers that the provisions made are reasonable and adequate.

(7) Provision against commitments and contingent liabilities

The Group assessed and made provisions for any probable outflow of economic benefits in relation to the commitments and contingent liabilities in accordance with their accounting policies.

(8) Impact of the *Guiding Opinions on Regulating the Asset Management Business of Financial Institutions*

In accordance with the *Guiding Opinions on Regulating the Asset Management Business of Financial Institutions* jointly issued by the PBOC and three other ministries as well as the PBOC's announcement to extend the transition period to 2021, the PBOC encourages financial institutions to dispose of legacy assets orderly using a range of methods such as replacing them with new products, market-based transfers, contract changes, and asset undertaking. The Group is pressing ahead with the rectification of legacy wealth management business and has assessed and recognised the impact of rectification on provisions and credit impairment losses in the financial statements. The Group will duly implement relevant policies and regulatory requirements, and continue to assess and disclose the relevant impact.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

60 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(1) Transactions with parent companies and their affiliates

The parent companies of the Group are CIC and Huijin.

As approved by the State Council, CIC was established on 29 September 2007 with registered capital of RMB1,550,000 million. As a wholly-owned subsidiary of CIC, Huijin exercises its rights and obligations as an investor on behalf of the PRC government in accordance with laws.

Huijin was incorporated on 16 December 2003 as a wholly-state-owned investment company. It was registered in Beijing with registered capital of RMB828,209 million. Its principal activities are equity investments as authorised by the State Council, without engaging in other commercial operations. As at 31 December 2020, Huijin directly held 57.11% of shares of the Bank.

The related companies under parent companies include the subsidiaries under parent companies and other associates and joint ventures.

The Group's transactions with parent companies and their affiliates mainly include deposit taking, entrusted asset management, operating leases, lending, purchase and sale of debt securities, money market transactions and inter-bank clearing. These transactions are priced based on market prices and conducted under normal commercial terms.

The Group has issued subordinated debts with a nominal value of RMB80,000 million (as at 31 December 2019: RMB81,720 million). These are bearer bonds and tradable in the secondary market. The Group has no information in respect of the amount of the bonds held by the affiliates of parent companies as at the end of the reporting period.

(a) Transactions with parent companies

In the ordinary course of the business, material transactions that the Group entered into with parent companies are as follows

Amounts:

	2020		2019	
	Amount	**Ratio to similar transactions**	Amount	Ratio to similar transactions
Interest income	**1,987**	**0.20%**	1,887	0.21%
Interest expense	**158**	**0.04%**	209	0.06%
Net trading gain	**34**	**0.79%**	11	0.12%

Balances outstanding as at the end of the reporting period

	31 December 2020		31 December 2019	
	Balance	**Ratio to similar transactions**	Balance	Ratio to similar transactions
Loans and advances to customers	**4,000**	**0.02%**	22,000	0.15%
Financial investments				
Financial assets measured at fair value through profit or loss	**104**	**0.02%**	426	0.06%
Financial assets measured at amortised cost	**23,490**	**0.52%**	13,090	0.35%
Financial assets measured at fair value through other comprehensive income	**20,163**	**1.08%**	17,278	0.96%
Deposits from banks and non-bank financial institutions	**12**	**0.00%**	25	0.00%
Deposits from customers	**5,681**	**0.03%**	1,379	0.01%
Credit commitments	**288**	**0.01%**	288	0.01%

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

60 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(1) Transactions with parent companies and their affiliates (continued)

(b) Transactions with the affiliates of parent companies

In the ordinary course of the business, material transactions that the Group entered into with the affiliates of parent companies are as follows:

Amounts

	Note	2020 Amount	2020 Ratio to similar transactions	2019 Amount	2019 Ratio to similar transactions
Interest income		18,413	1.86%	20,659	2.27%
Interest expense		3,508	0.85%	4,099	1.10%
Fee and commission income		221	0.17%	196	0.15%
Fee and commission expense		359	2.12%	276	1.75%
Net trading gain		289	6.70%	857	9.40%
Net gain arising from investment securities		2,119	36.76%	1,770	19.47%
Operating expenses	(i)	810	0.43%	847	0.45%

Balances outstanding as at the end of the reporting period

	Note	31 December 2020 Balance	31 December 2020 Ratio to similar transactions	31 December 2019 Balance	31 December 2019 Ratio to similar transactions
Deposits with banks and non-bank financial institutions		85,722	18.91%	47,017	11.20%
Placements with banks and non-bank financial institutions		138,354	37.55%	172,472	32.47%
Positive fair value of derivatives		14,013	20.30%	4,387	12.66%
Financial assets held under resale agreements		35,743	5.94%	34,246	6.14%
Loans and advances to customers		72,800	0.45%	86,960	0.60%
Financial investments					
Financial assets measured at fair value through profit or loss		97,007	16.78%	70,184	10.39%
Financial assets measured at amortised cost		200,448	4.45%	262,925	7.03%
Financial assets measured at fair value through other comprehensive income		221,531	11.86%	198,140	11.02%
Other assets		53	0.02%	204	0.11%
Deposits from banks and non-bank financial institutions	(ii)	124,039	6.38%	94,204	5.63%
Placements from banks and non-bank financial institutions		119,434	34.16%	141,708	27.17%
Financial liabilities measured at fair value through profit or loss		90	0.04%	81	0.03%
Negative fair value of derivatives		12,037	14.69%	4,666	13.81%
Financial assets sold under repurchase agreements		1,291	2.28%	5,172	4.51%
Deposits from customers		74,052	0.36%	46,787	0.25%
Other liabilities		6,587	1.21%	9,135	2.20%
Credit commitments		14,193	0.42%	27,156	0.88%

(i) Operating expenses mainly represent fees for related services provided by parent companies and their affiliates.

(ii) Deposits from the affiliates of parent companies are unsecured and are repayable under normal commercial terms.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

60 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(2) Transactions with associates and joint ventures of the Group

Transactions between the Group and its associates and joint ventures are conducted in the normal and ordinary course of the business and under normal commercial terms as those transactions conducted between the Group and non-related companies outside the Group.

In the ordinary course of the business, material transactions that the Group entered into with associates and joint ventures are as follows:

Amounts

	2020	2019
Interest income	171	101
Interest expense	55	13
Fee and commission income	69	366
Fee and commission expense	4	4
Net loss arising from investment securities	–	168
Operating expenses	119	100

Balances outstanding as at the end of the reporting period

	31 December 2020	31 December 2019
Loans and advances to customers	7,959	3,474
Other assets	913	20
Financial liabilities measured at fair value through profit or loss	7	67
Deposits from customers	8,047	2,895
Other liabilities	6,709	743
Credit commitments	303	260

(3) Transactions between the Bank and its subsidiaries

Transactions between the Bank and its subsidiaries are conducted in the normal and ordinary course of the business and under normal commercial terms as those transactions are conducted between the Group and non-related companies outside the Group. All the inter-group transactions and inter-group balances are eliminated when preparing the consolidated financial statements as mentioned in Note 4(1)(b).

In the ordinary course of the business, material transactions that the Bank entered into with its subsidiaries are as follows:

Amounts

	2020	2019
Interest income	1,871	1,578
Interest expense	1,160	1,138
Fee and commission income	2,257	2,197
Fee and commission expense	775	1,155
Dividend income	557	323
Operating expenses	6,407	4,807
Other operating expense, net	101	209

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

60 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(3) Transactions between the Bank and its subsidiaries (continued)

Balances outstanding as at the end of the reporting period

	31 December 2020	31 December 2019
Deposits with banks and non-bank financial institutions	3,166	785
Placements with banks and non-bank financial institutions	119,347	109,493
Positive fair value of derivatives	177	137
Loans and advances to customers	5,875	3,490
Financial investments		
Financial assets measured at fair value through profit or loss	654	697
Financial assets measured at amortised cost	1,206	1,062
Financial assets measured at fair value through other comprehensive income	18,262	13,210
Other assets	37,967	39,227

	31 December 2020	31 December 2019
Deposits from banks and non-bank financial institutions	11,905	22,675
Placements from banks and non-bank financial institutions	39,189	27,685
Financial liabilities measured at fair value through profit or loss	109	71
Negative fair value of derivatives	317	383
Financial assets sold under repurchase agreements	–	700
Deposits from customers	7,399	12,652
Debt securities issued	50	–
Other liabilities	9,015	2,328

As at 31 December 2020, the total maximum guarantee limit of guarantee letters issued by the Bank with its subsidiaries as beneficiary was RMB16,455 million (as at 31 December 2019: RMB23,552 million).

As at 31 December 2020, the transactions between subsidiaries of the Group were mainly debt securities issued and deposits with banks and non-bank financial institutions, and the balances of the above transactions were RMB1,457 million and RMB1,022 million respectively (as at 31 December 2019, the transactions between subsidiaries of the Group were debt securities issued and deposits with banks and non-bank financial institutions, and the balances of the above transactions were RMB1,702 million and RMB1,691 million respectively).

(4) Transactions with other PRC state-owned entities

State-owned entities refer to those entities directly or indirectly owned by the PRC government through its government authorities, agencies, affiliations and other organisations. Transactions with other state-owned entities include but are not limited to: lending and deposit taking; taking and placing of inter-bank balances; entrusted lending and other custody services; insurance and securities agency, and other intermediary services; purchase, sale, underwriting and redemption of bonds issued by other state-owned entities; purchase, sale and leases of property and other assets; and rendering and receiving of utilities and other services.

These transactions are conducted in the ordinary course of the Group's banking business on terms similar to those that would have been entered into with non-state-owned entities. The Group's pricing strategy and approval processes for major products and services, such as loans, deposits and commission income, do not depend on whether the customers are state-owned entities or not. Having due regard to the substance of the relationships, the Group is of the opinion that none of these transactions are material related party transactions that require separate disclosure.

(5) Transactions with the Annuity Scheme and Plan Assets

Apart from the obligations for defined contributions to the Annuity Scheme and regular banking transactions, there were no other transactions between the Group and the Annuity Scheme in 2020 and 2019.

As at 31 December 2020, the fair value of the Group's supplementary retirement benefit plan assets managed by CCB Principal Asset Management and CCB Pension was RMB3,918 million (as at 31 December 2019: RMB3,670 million), and management fees payable to CCB Principal Asset Management and CCB Pension were RMB28.05 million (as at 31 December 2019: RMB19.52 million).

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

60 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(6) Key management personnel

Key management personnel are those persons having authorities and responsibilities for planning, directing and controlling the activities of the Group, directly or indirectly, including directors, supervisors and senior executives. The Group enters into banking transactions with key management personnel in the normal course of business. For the years ended 31 December 2020 and 2019, there were no material transactions and balances with key management personnel.

The compensation of directors and supervisors is disclosed in Note 16. The senior executives' annual compensation before individual income tax during the year is as follows:

	2020			
	Remuneration paid RMB'000	Contributions to defined contribution retirement schemes RMB'000	Other benefits in kind (Note (i)) RMB'000	Total (Note (ii)) RMB'000
Executive Vice Presidents				
Ji Zhihong	557	39	120	716
Wang Hao	186	17	44	247
Zhang Min	47	4	11	62
Secretary to the Board				
Hu Changmiao	1,058	39	201	1,298
Chief Information Officer				
Jin Panshi	–	–	–	–
Chief Risk Officer				
Cheng Yuanguo	–	–	–	–
Chief Financial Officer				
Zhang Yi	–	–	–	–
Former Executive Vice President				
Huang Yi	186	9	37	232
Former Chief Financial Officer				
Xu Yiming	263	–	59	322
Former Chief Risk Officer				
Jin Yanmin	1,058	39	204	1,301
	3,355	147	676	4,178

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

60 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(6) Key management personnel (continued)

	2019			
	Accrued cost (Allowances) RMB'000	Social insurance, corporate annuity, supplementary medical insurance and housing fund paid by the Bank RMB'000	Other monetary income RMB'000	Total RMB'000
Executive Vice Presidents				
Huang Yi	771	165	–	936
Ji Zhihong	450	91	–	541
Chief Financial Officer				
Xu Yiming	2,371	204	–	2,575
Chief Risk Officer				
Jin Yanmin	1,383	118	–	1,501
Secretary to the Board				
Hu Changmiao	1,383	116	–	1,499
Former Executive Vice Presidents				
Zhang Lilin	514	105	–	619
Liao Lin	707	184	–	891
Former Secretary to the Board				
Huang Zhiling	988	86	–	1,074
	8,567	1,069	–	9,636

(i) Other benefits in kind included the Bank's contributions to medical fund, housing fund and other social insurances, which are payable to labour and security authorities based on the lower of certain percentage of the salaries and allowance or the prescribed upper limits as required by the relevant regulations issued by the government authorities. Other benefits also included the Bank's contribution to its own corporate annuity plan (which was set up in accordance with the relevant policies issued by the government authorities) and supplementary medical insurance. In accordance with the Administrative Measures on Annuities of State-owned Financial Enterprises and the China Construction Bank Corporation Annuity Plan, in 2020, the Bank topped up the difference resulting from adjustments to annuity contribution percentages between February 2018 and December 2019. The above disclosure of benefits data includes the top-up made by the Bank of the difference in annuity contributions for 2020.

(ii) The total compensation package for these key management personnel for the year ended 31 December 2020 has not yet been finalised in accordance with regulations of the PRC relevant authorities. The amount of the compensation to be adjusted for is not expected to have significant impact on the Group's financial statements for the year ended 31 December 2020. The final compensation will be disclosed in a separate announcement when determined.

(iii) The total compensation package for certain key management personnel for the year ended 31 December 2019 had not been finalised in accordance with regulations of the PRC relevant authorities as at the date that the 2019 financial statements were announced. The aforesaid total compensation package for the key management personnel for the year ended 31 December 2019 has been reviewed and approved by the Board meeting of the Bank and the shareholders' general meeting of the Bank.

(iv) From 2015 onwards, remuneration of the Bank's leaders administered by central authorities has been paid in accordance with relevant policies relating to the central remuneration reform.

(7) Loans, quasi-loans and other credit transactions to directors, supervisors and senior executives

The Group had no material balance of loans, quasi-loans and other credit transactions to directors, supervisors and senior executives as at the end of reporting period. Those loans, quasi-loans and other credit transactions to directors, supervisors and senior executives were conducted in the normal and ordinary course of the business and under normal commercial terms or on the same terms and conditions with those which are available to other employees, based on terms and conditions granted to third parties adjusted for risk reduction.

61 RISK MANAGEMENT

The Group has exposure to the following risks:

– credit risk
– market risk
– liquidity risk
– operational risk
– insurance risk

This note presents information about the Group's exposures to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's capital management.

Risk management framework

The Board performs risk management responsibilities pursuant to the Bank's Articles of Association and regulatory requirements. The Risk Management Committee under the Board is responsible for developing risk management strategies, supervising the implementation, and assessing the overall risk profile on a regular basis. The Board reviews the statements of risk appetite regularly and transmits risk appetite through policies. The Board of Supervisors supervises the construction of the comprehensive risk management system, as well as the performance of the Board and senior management in delivering comprehensive risk management responsibilities. Senior management is responsible for implementing risk strategies developed by the Board and organising the comprehensive risk management work across the Group.

Chief Risk Officer of the Bank assists the President with risk management work within designated responsibilities. Risk Management Department is the leading management department responsible for the Group's comprehensive risk management, and its subordinate department, Market Risk Management Department takes the lead in market risk management. Credit Management Department is the leading management department responsible for the overall credit risk management and country risk management. Asset & Liability Management Department is the leading management department responsible for the management of liquidity risk and interest rate risk of banking book. Internal Control & Compliance Department is the leading management department responsible for operational risk and information technology risk management. Public Relations & Corporate Culture Department is in charge of reputational risk management. Strategy and Policy Coordination Department is the leading management department responsible for strategic risk management. Other specialised departments are responsible for other risks.

The Bank attached great importance to the risk management of subsidiaries, implemented management requirements of the parent bank through the corporate governance mechanism, continuously improved the quality and efficiency of the performance of the Board of Directors of the subsidiaries, and required the subsidiaries to focus on their main businesses, operate steadily, and establish a sound risk control system. It further highlighted the transmission of risk appetite at the Group level within the group risk management framework, and implemented refined and differentiated management of different types of subsidiaries. It strengthened the Group's consolidation and credit management to avoid lending beyond credit limits. It continued to promote the establishment of risk views of subsidiaries, and effectively improved the digital level of risk early warning and risk monitoring of subsidiaries. It strengthened overall planning and coordination and improved the long-term mechanism for risk management of the asset management business at the subsidiaries.

(1) Credit risk

Credit risk management

Credit risk represents the financial loss that arises from the failure of a debtor or counterparty to discharge its contractual obligations or commitments to the Group.

Credit business

The Risk Management Department takes the lead in the development and implementation of the credit risk measurement tools including customers rating and facilities grading. The Credit Management Department is responsible for establishing credit risk management policies and monitoring the quality of credit assets. The Special Assets Resolution Center is responsible for the special assets resolutions. The Credit Approval Department is responsible for the Group's comprehensive credit limits and credit approval of various credit businesses. While the Credit Management Department takes the lead, both the Credit Management Department and the Credit Approval Department will coordinate with the Corporate Banking Department, the Inclusive Finance Department, the Institutional Banking Department, the International Business Department, the Strategic Clients Department, the Housing Finance & Personal Lending Department, the Credit Card Center, and the Legal Affairs Department to implement the credit risk management policies and procedures.

61 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (continued)

Credit risk management (continued)

Credit business (continued)

With respect to the credit risk management of corporate and institutional business, the Group has accelerated the adjustment of its credit portfolio structure, enhanced post-lending monitoring, and refined the industry-specific guideline and policy baseline for credit approval. Management also fine-tuned the credit acceptance and exit policies, and optimised its economic capital and credit risk limit management. All these policies have been implemented to maintain the stability of asset quality. The Group manages credit risk throughout the entire credit process including pre-lending evaluations, credit approval and post-lending monitoring. The Group performs pre-lending evaluations by assessing the entity's credit ratings based on internal rating criteria and assessing the risk and rewards with respect to the proposed project. Credit approvals are granted by designated Credit Approval Officers. The Group continually carries out post-lending monitoring, particularly those related to targeted industries, geographical segments, products and clients. Any adverse events that may significantly affect a borrower's repayment ability are reported timely and measures are implemented to prevent and control risks.

With respect to the personal credit business, the Group relies on credit assessment of applicants as the basis for loan approval. Customer relationship managers are required to assess the income, credit history, and repayment ability of the applicant. The customer relationship managers then forward the application and recommendations to the loan-approval departments for consent. The Group monitors borrowers' repayment ability, the status of collateral and any changes to collateral value. Once a loan becomes overdue, the Group starts the recovery process according to standard recovery procedures.

To mitigate risks, the Group requests the customers to provide collateral or guarantees where appropriate. A refined management system and operating procedure for collateral have been developed, and there is a guideline to specify the suitability of accepting specific types of collateral. Collateral values, structures and legal covenants are regularly reviewed to ensure that they still serve their intended purposes and conform to market practices.

Treasury business

For risk management purposes, credit risk arising from debt securities and derivatives exposures is managed independently and information thereon is disclosed in Notes (1)(i) and (1)(j) below. The Group sets credit limits for treasury activities and monitors them regularly with reference to the fair values of the relevant financial instruments.

Measurement of expected credit losses (ECLs)

(A) Segmentation of financial instruments

The Group adopts a "three-stage" model for impairment based on changes in credit risk since initial recognition or by determining whether the financial instruments are credit-impaired, to estimate the expected credit losses.

The key definition of the three stages are summarised below:

Stage 1: For financial instruments with no significant increase in credit risk after initial recognition, expected credit losses in the next 12 months are recognised.

Stage 2: For financial instruments with significant increase in credit risk since initial recognition, but with no objective evidence of impairment, lifetime expected credit losses are recognised.

Stage 3: For financial instruments with objective evidence of impairment on the balance sheet date, lifetime expected credit losses are recognised.

(B) Significant increase in credit risk (SICR)

The Group assesses at least quarterly whether the credit risk of a financial instrument has increased significantly since initial recognition. The Group compares the risk of default of financial instruments as at the balance sheet date with that as at the date of initial recognition for an individual financial instrument or a group of financial instruments with similar credit risk characteristics to determine whether the credit risk has increased significantly since initial recognition. The Group sufficiently considers all reasonable and supportable information in related assessments, including regulatory and business environment, internal and external credit rating of customer, customer repayment ability, customer operation capacity, contract terms of the loan, asset price, market interest rate, customer repayment behaviors, and forward-looking information.

The Group has set qualitative and quantitative criteria for assessing whether the credit risk of financial instruments has increased significantly since initial recognition. For example, the credit risk of corporate loans and advances whose internal credit ratings have fallen to level 15 and below, and of bond investments whose internal credit ratings have fallen by 2 and more levels, is regarded as having increased significantly.

Usually, the credit risk of loans overdue for more than 30 days is regarded as having increased significantly.

For borrowers who were eligible for temporary deferral in principal repayment and interest payment, deferred repayment and other credit support measures in the wake of COVID-19, the Group, by reference to guidelines by relevant regulators, did not consider these support measures as an automatic trigger of a significant increase in credit risk. The Group continued to make judgment based on substantive risk assessment and comprehensively considered the operations and repayment capacity of borrowers, as well as any changes in the impact of COVID-19 on these borrowers, to assess whether the credit risk of relevant financial instruments had increased significantly since initial recognition.

61 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (continued)

Measurement of expected credit losses (ECLs) (continued)

(C) Definition of default and credit-impaired assets

The Group considers a financial asset as having defaulted when it is credit-impaired. Generally, financial assets overdue for more than 90 days on contractual payment terms shall be considered as having defaulted.

In order to evaluate whether a financial asset is impaired, the Group considers the following criteria:

– Significant financial difficulty of the borrower or issuer;

– Breach of contract terms, such as a default or delinquency in interest or principal payments;

– The Group, for economic or legal reasons, making a concession to a borrower experiencing financial difficulty that the Group would not otherwise consider;

– It is becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

– Disappearance of an active market for financial assets because of financial difficulties;

– A financial asset purchased or originated by a large discount which reflects the fact of credit-impairment having occurred;

– Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Group, including adverse changes in the payment status of borrowers in the Group, an increase in the unemployment rate in the geographical area of the borrowers, a decrease in property prices for mortgages in the relevant area, or adverse changes in industry conditions that affect the borrowers in the Group; and;

– Other objective evidence indicating there is an impairment of the financial asset.

The Group's definition of default has been consistently applied to the estimates of PD, LGD and EAD during the ECL measurement.

(D) Explanation of parameters, assumptions and estimation techniques

The ECL is recognised on either a 12-month or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether a financial instrument is considered to be credit-impaired. Expected credit losses are the discounted product of the weighted average of PD, LGD, and EAD under the optimistic, baseline and pessimistic scenarios, defined as follows:

PD refers to the likelihood of a borrower defaulting on its financial obligation in the future, after consideration of forward-looking information. Please refer to earlier disclosure in this note for the definition of default.

LGD refers to the Group's expected loss amount resulting from default as a proportion of total exposure, after consideration of forward-looking information.

EAD is the total amount of risk exposure on and off-balances sheet at the time of default. The exposure is determined by the repayment plan according to different types of products.

The discount rate used in the ECL measurement is the effective interest rate.

During the reporting period, based on changes in macroeconomic environment, the Group has updated forward-looking information used in the measurement of expected credit losses. Please refer to further disclosure in this note for forward-looking information which is incorporated in the measurement of expected credit losses.

The assumptions underlying the ECL measurement, such as the PDs for different maturities and how the collateral values change, are monitored and reviewed on a quarterly basis.

There have been no significant changes in estimation techniques and such assumptions made during the reporting period.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

61 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (continued)

Measurement of expected credit losses (ECLs) (continued)

(E) Forward-looking information incorporated in the ECL

The assessment of SICR and the measurement of ECL both incorporate forward-looking information.

The Group has performed historical data analysis and identified the macroeconomic variables affecting expected credit losses, such as GDP, CPI, M2, PPI, RMB deposit reserve rate, London spot gold price, average exchange rate of US Dollar to RMB, sales price indices of second-hand residential buildings in 70 large and medium-sized cities, national real estate climate index, unemployment rate, and so on.

COVID-19 has made an unprecedented impact on the macro economy, bringing great uncertainties and significantly increasing the difficulty of forecasting macroeconomic variables. In order to further improve the accuracy of forecasts, the Group developed scenarios specifically tailored for ECL measurement by reference to forecast results of authoritative international and domestic institutions and leveraging on the capability of internal experts.

The forecast GDP value for baseline scenario is set as the average value of forecasts released by authoritative international and domestic institutions. The upper and lower limits of forecast values for optimistic scenario and pessimistic scenario are determined using certain quantiles of the overall distribution of forecast results by relevant authoritative institutions. For other macroeconomic variables, the Group involved internal experts and used methods such as transmission models, principles of economics, and expert judgment to calculate the predicted value of each variable under various scenarios. The forecast 2021 GDP growth rate under the baseline scenario is 8.00%.

The Group constructs empirical models to derive the relationship between historical macroeconomic variables and PD and LGD, and calculates the PD and LGD values for a given future horizon using the forecasted macroeconomic variables.

The Group constructs empirical models to determine the weightings for optimistic, baseline and pessimistic scenarios. As at 31 December 2020 and 31 December 2019, the optimistic, baseline and pessimistic scenarios are of comparable weighting.

(F) Grouping of financial instruments for losses measured on a collective basis

For expected credit loss provisions modelled on a collective basis, the Group has divided exposures with shared risk characteristics into separate groups. In performing this grouping, the Group obtained sufficient information to ensure it is statistically reliable. The Group uses credit rating, product types and client types, etc., for grouping the personal loans and advances to calculate the expected credit losses measured on a collective basis.

(a) Maximum credit risk exposure

The following table presents the maximum exposure to credit risk as at the end of the reporting period without taking into consideration any collateral held or other credit enhancement. In respect of the financial assets recognised in the statement of financial position, the maximum exposure to credit risk is represented by the carrying amount after deducting any impairment allowance.

	31 December 2020	31 December 2019
Deposits with central banks	**2,767,096**	2,560,219
Deposits with banks and non-bank financial institutions	**453,233**	419,661
Placements with banks and non-bank financial institutions	**368,404**	531,146
Positive fair value of derivatives	**69,029**	34,641
Financial assets held under resale agreements	**602,239**	557,809
Loans and advances to customers	**16,231,369**	14,542,001
Financial investments		
Financial assets measured at fair value through profit or loss	**361,318**	496,653
Financial assets measured at amortised cost	**4,505,243**	3,740,296
Financial assets measured at fair value through other comprehensive income	**1,860,503**	1,791,553
Other financial assets	**205,860**	163,231
Total	**27,424,294**	24,837,210
Off-balance sheet credit commitments	**3,413,530**	3,085,807
Maximum credit risk exposure	**30,837,824**	27,923,017

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

61 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (continued)

(b) Loans and advances to customers analysed by credit quality

Within overdue but not credit impaired loans and advances and credit impaired loans and advances, the portions covered and not covered by collateral held are as follows:

	31 December 2020		
	Overdue but not credit impaired loans and advances		**Credit impaired loans and advances**
	Corporate	**Personal**	**Corporate**
Portion covered	**1,011**	**16,468**	**81,636**
Portion not covered	**1,535**	**10,419**	**148,796**
Total	**2,546**	**26,887**	**230,432**

	31 December 2019		
	Overdue but not credit impaired loans and advances		Credit impaired loans and advances
	Corporate	Personal	Corporate
Portion covered	1,305	14,249	66,611
Portion not covered	2,218	9,330	118,504
Total	3,523	23,579	185,115

The above collateral includes land use rights, buildings and equipment, etc. The fair value of collateral was estimated by the Group with reference to the latest available external valuations adjusted after taking into account the current realisation experience as well as the market situation.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

61 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (continued)

(c) Loans and advances to customers analysed by economic sector concentrations

	31 December 2020			31 December 2019		
	Gross loan balance	**Percentage**	**Balance secured by collateral**	Gross loan balance	Percentage	Balance secured by collateral
Corporate loans and advances						
– Transportation, storage and postal services	**1,703,060**	**10.14%**	**529,450**	1,532,989	10.20%	520,042
– Leasing and commercial services	**1,481,999**	**8.83%**	**505,365**	1,137,429	7.57%	419,247
– Manufacturing	**1,425,165**	**8.49%**	**378,593**	1,266,240	8.43%	319,672
– Production and supply of electric power, heat, gas and water	**867,109**	**5.17%**	**189,047**	837,974	5.58%	198,857
– Real estate	**788,560**	**4.70%**	**436,419**	658,957	4.39%	345,101
– Wholesale and retail trade	**773,466**	**4.61%**	**377,767**	521,670	3.47%	245,607
– Water, environment and public utility management	**540,313**	**3.22%**	**235,243**	438,817	2.92%	215,848
– Construction	**396,171**	**2.36%**	**106,836**	337,375	2.25%	86,217
– Mining	**236,199**	**1.41%**	**16,885**	232,837	1.55%	18,925
– Agriculture, forestry, farming, fishing	**88,754**	**0.53%**	**17,644**	72,200	0.48%	16,092
– Education	**72,721**	**0.43%**	**16,713**	66,651	0.44%	14,397
– Public management, social securities and social organisation	**55,905**	**0.33%**	**1,604**	59,969	0.40%	4,770
– Others	**746,102**	**4.44%**	**210,436**	779,625	5.19%	186,851
Total corporate loans and advances	**9,175,524**	**54.66%**	**3,022,002**	7,942,733	52.87%	2,591,626
Personal loans and advances	**7,311,183**	**43.55%**	**6,104,175**	6,552,480	43.61%	5,515,937
Discounted bills	**259,061**	**1.54%**	**–**	492,693	3.28%	–
Accrued interest	**41,664**	**0.25%**	**–**	36,253	0.24%	–
Total loans and advances to customers	**16,787,432**	**100.00%**	**9,126,177**	15,024,159	100.00%	8,107,563

Details of impaired loans, impairment allowances, charges, and amounts written off in respect of economic sectors which constitute 10% or more of the total gross loans and advances to customers are as follows:

	31 December 2020				2020	
		Allowances for expected credit losses				
	Stage 3 Gross loans	**Stage 1**	**Stage 2**	**Stage 3**	**Charge for the year**	**Written off during the year**
Transportation, storage and postal services	**37,695**	**(28,478)**	**(14,023)**	**(27,783)**	**(14,829)**	**2,382**

	31 December 2019				2019	
		Allowances for expected credit losses				
	Stage 3 Gross loans	Stage 1	Stage 2	Stage 3	Charge for the year	Written off during the year
Transportation,storage and postal services	28,663	(28,436)	(11,075)	(20,105)	(25,268)	440

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

61 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (continued)

(d) Loans and advances to customers analysed by geographical sector concentrations

	31 December 2020			31 December 2019		
	Gross loan balance	Percentage	Balance secured by collateral	Gross loan balance	Percentage	Balance secured by collateral
Central	3,084,244	18.37%	1,914,520	2,684,077	17.87%	1,681,971
Yangtze River Delta	3,003,466	17.89%	1,823,289	2,584,684	17.20%	1,593,754
Bohai Rim	2,819,557	16.80%	1,367,386	2,527,254	16.82%	1,226,117
Pearl River Delta	2,770,718	16.50%	1,885,512	2,320,984	15.45%	1,626,994
Western	2,741,336	16.33%	1,589,540	2,480,840	16.51%	1,430,658
Northeastern	766,232	4.56%	375,371	738,388	4.91%	361,023
Head office	830,609	4.95%	–	747,741	4.98%	–
Overseas	729,606	4.35%	170,559	903,938	6.02%	187,046
Accrued interest	41,664	0.25%	–	36,253	0.24%	–
Gross loans and advances to customers	16,787,432	100.00%	9,126,177	15,024,159	100.00%	8,107,563

Details of Stage 3 loans and expected credit losses in respect of geographical sectors as at the end of the reporting period are as follows:

	31 December 2020			
	Stage 3 Gross loan balance	Allowances for expected credit losses		
		Stage 1	Stage 2	Stage 3
Central	65,990	(50,739)	(19,917)	(49,417)
Bohai Rim	43,467	(45,227)	(21,927)	(26,744)
Western	39,218	(48,926)	(17,893)	(25,133)
Pearl River Delta	38,323	(46,614)	(12,955)	(21,855)
Yangtze River Delta	32,932	(53,150)	(20,265)	(20,308)
Northeastern	22,581	(12,771)	(9,112)	(15,654)
Head office	11,772	(15,165)	(2,917)	(10,231)
Overseas	6,446	(2,836)	(3,113)	(3,194)
Total	260,729	(275,428)	(108,099)	(172,536)

	31 December 2019			
	Stage 3 Gross loans balance	Allowances for expected credit losses		
		Stage 1	Stage 2	Stage 3
Central	46,289	(45,490)	(15,072)	(31,019)
Bohai Rim	43,954	(40,048)	(19,612)	(29,160)
Western	40,008	(45,034)	(14,822)	(30,225)
Pearl River Delta	24,914	(38,381)	(11,878)	(16,651)
Yangtze River Delta	25,796	(43,980)	(18,604)	(17,829)
Northeastern	20,384	(12,623)	(8,916)	(15,074)
Head office	8,185	(11,010)	(2,216)	(7,227)
Overseas	2,943	(3,461)	(1,760)	(2,066)
Total	212,473	(240,027)	(92,880)	(149,251)

The definitions of geographical segments are set out in Note 56(1). The above allowances for ECL do not include allowances for ECL of loans and advances measured at FVOCI.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

61 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (continued)

(e) *Loans and advances to customers analysed by type of collateral*

	31 December 2020	31 December 2019
Unsecured loans	**5,397,481**	4,959,932
Guaranteed loans	**2,222,110**	1,920,411
Loans secured by property and other immovable assets	**7,703,618**	6,875,286
Other pledged loans	**1,422,559**	1,232,277
Accrued interest	**41,664**	36,253
Gross loans and advances to customers	**16,787,432**	15,024,159

(f) *Restructured loans and advances to customers*

Restructured loans and advances to customers are those loans and advances to customers for which the Group has modified the contract terms as a result of the deterioration in the borrower's financial position or of the borrower's inability to make payments when due. The gross carrying amount of the Group's restructured loans and advances to customers were not significant for the years ended 31 December 2020 and 2019.

(g) *Credit exposure*

Loans and advances to customers

	31 December 2020			
	Stage 1 12 months ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Low risk	**15,937,968**	**44,916**	**–**	**15,982,884**
Medium risk	**–**	**492,265**	**–**	**492,265**
High risk	**–**	**–**	**260,729**	**260,729**
Gross loans and advances	**15,937,968**	**537,181**	**260,729**	**16,735,878**
Allowances for impairment losses on loans and advances measured at amortised cost	**(275,428)**	**(108,099)**	**(172,536)**	**(556,063)**
Allowances for impairment losses on loans and advances measured at fair value through other comprehensive income	**(603)**	**(237)**	**–**	**(840)**

	31 December 2019			
	Stage 1 12 months ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Low risk	14,294,751	26,214	–	14,320,965
Medium risk	–	439,186	–	439,186
High risk	–	–	212,473	212,473
Gross loans and advances	14,294,751	465,400	212,473	14,972,624
Allowances for impairment losses on loans and advances measured at amortised cost	(240,027)	(92,880)	(149,251)	(482,158)
Allowances for impairment losses on loans and advances measured at fair value through other comprehensive income	(958)	(94)	(570)	(1,622)

The Group classifies asset risk characteristics according to the quality of assets. "Low risk" means that the borrower can fulfil the contract, and there are not enough reasons to suspect that the principal and interest of the loan cannot be repaid in full on time; "Medium risk" means that the borrower is currently able to repay the principal and interest of the loan, but there are some factors that may adversely affect the repayment; "High risk" means that the borrower has obvious problems in its repayment ability and loan principal and interest cannot be repaid in full by relying on normal business income. Even if the guarantee is enforced, losses may be incurred.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

61 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (continued)

(g) Credit exposure (continued)

Off-balance sheet credit business

	31 December 2020			
	Stage 1 12 months ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
Low risk	**3,368,654**	**–**	**–**	**3,368,654**
Medium risk	**–**	**43,455**	**–**	**43,455**
High risk	**–**	**–**	**1,421**	**1,421**
Total carrying amount	**3,368,654**	**43,455**	**1,421**	**3,413,530**
Allowance for impairment losses	**(26,480)**	**(4,009)**	**(1,344)**	**(31,833)**

	31 December 2019			
	Stage 1 12 months ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Low risk	3,019,124	–	–	3,019,124
Medium risk	–	56,814	–	56,814
High risk	–	–	9,869	9,869
Total carrying amount	3,019,124	56,814	9,869	3,085,807
Allowance for impairment losses	(24,773)	(4,401)	(6,305)	(35,479)

The Group classifies asset risk characteristics according to the quality of assets. "Low risk" means that the borrower can fulfil the contract, and there are not enough reasons to suspect that the principal and interest of the loan cannot be repaid in full on time; "Medium risk" means that the borrower is currently able to repay the principal and interest of the loan, but there are some factors that may adversely affect the repayment; "High risk" means that the borrower has obvious problems in its repayment ability and loan principal and interest cannot be repaid in full by relying on normal business income. Even if the guarantee is enforced, losses may be incurred.

Financial investments

	31 December 2020			
	Stage 1 12 months ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
Low risk	**6,266,753**	**208**	**–**	**6,266,961**
Medium risk	**16,995**	**2,420**	**–**	**19,415**
High risk	**–**	**947**	**10,420**	**11,367**
Total carrying amount excluding accrued interest	**6,283,748**	**3,575**	**10,420**	**6,297,743**
Allowance for impairment losses on financial assets measured at amortised cost	**(13,211)**	**(282)**	**(6,745)**	**(20,238)**
Allowance for impairment losses on financial assets measured at fair value through other comprehensive income	**(3,334)**	**(11)**	**–**	**(3,345)**

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

61 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (continued)

(g) *Credit exposure (continued)*

Financial investments (continued)

	31 December 2019			
	Stage 1 12 months ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Low risk	5,435,395	–	–	5,435,395
Medium risk	22,310	634	–	22,944
High risk	–	637	7,774	8,411
Total carrying amount excluding accrued interest	5,457,705	1,271	7,774	5,466,750
Allowance for impairment losses on financial assets measured at amortised cost	(8,932)	(134)	(3,636)	(12,702)
Allowance for impairment losses on financial assets measured at fair value through other comprehensive income	(3,580)	–	–	(3,580)

The Group classifies financial investment risk characteristics based on asset eligibility and internal rating changes. "Low risk" means that the issuer's initial internal rating is above the entry level, and there are no reasons to suspect that the financial investment is expected to default; "Medium risk" means that although the issuer's internal rating is reduced to a certain extent, but there are not enough reasons to suspect that the financial investment is expected to default; "High risk" means that there are obvious problems which may cause a default, or the financial investment indeed is defaulted.

Amounts due from banks and non-bank financial institutions

Amounts due from banks and non-bank financial institutions include deposits and placements with banks and non-bank financial institutions, and financial assets held under resale agreements of which counterparties are banks and non-bank financial institutions.

	31 December 2020			
	Stage 1 12 months ECL	**Stage 2 lifetime ECL**	**Stage 3 lifetime ECL**	**Total**
Low risk	**1,421,186**	**–**	**–**	**1,421,186**
Medium risk	**–**	**–**	**–**	**–**
High risk	**–**	**–**	**–**	**–**
Total carrying amount excluding accrued interest	**1,421,186**	**–**	**–**	**1,421,186**
Allowance for impairment losses	**(775)**	**–**	**–**	**(775)**

	31 December 2019			
	Stage 1 12 months ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Low risk	1,505,449	–	–	1,505,449
Medium risk	–	–	–	–
High risk	–	–	–	–
Total carrying amount excluding accrued interest	1,505,449	–	–	1,505,449
Allowance for impairment losses	(506)	–	–	(506)

The Group classifies risk characteristics of amounts due from banks and non-bank financial institutions based on asset eligibility and internal rating changes. "Low risk" means that the issuer's initial internal rating is above the entry level, and there are no reasons to suspect that the amount due from banks and non-bank financial institutions is expected to default; "Medium risk" means that although the issuer's internal rating is reduced to a certain extent, but there are not enough reasons to suspect that the amount due from banks and non-bank financial institutions is expected to default; "High risk" means that there are obvious problems which may cause a default, or the amount due from banks and non-bank financial institutions indeed is defaulted.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

61 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (continued)

(h) Distribution of amounts due from banks and non-bank financial institutions in terms of credit quality is as follows:

	31 December 2020	31 December 2019
Credit impaired	–	–
Allowances for impairment losses	–	–
Subtotal	–	–
Neither overdue nor impaired		
– grades A to AAA	1,133,754	1,254,603
– grades B to BBB	2,507	20,384
– unrated	284,925	230,462
Accrued interest	3,465	3,673
Total	1,424,651	1,509,122
Allowances for impairment losses	(775)	(506)
Subtotal	1,423,876	1,508,616
Total	1,423,876	1,508,616

Amounts neither overdue nor impaired are analysed above according to the Group's internal credit ratings. Unrated amounts due from banks and non-bank financial institutions include amounts due from a number of banks and non-bank financial institutions for which the Group has not assigned internal credit ratings.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

61 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (continued)

(i) Distribution of debt investments analysed by rating

The Group adopts a credit rating approach to manage the credit risk of the debt investment portfolio held. The ratings are obtained from Bloomberg Composite, or major rating agencies where the issuers of the debt investments are located. The carrying amounts of the debt investments analysed by the rating agency designations as at the end of the reporting period are as follows:

	31 December 2020					
	Unrated	AAA	AA	A	Lower than A	Total
Credit impaired						
– Banks and non-bank financial institutions	340	–	–	–	–	340
– Enterprises	7,545	–	1,226	–	1,800	10,571
Total	7,885	–	1,226	–	1,800	10,911
Allowances for impairment losses						(6,745)
Subtotal						4,166
Neither overdue nor impaired						
– Government	1,904,091	3,167,073	5,296	11,236	15,151	5,102,847
– Central banks	27,875	2,335	7,997	927	503	39,637
– Policy banks	758,689	408	–	22,297	–	781,394
– Banks and non-bank financial institutions	144,707	202,019	10,768	35,632	8,416	401,542
– Enterprises	59,740	295,736	25,000	25,242	5,253	410,971
Total	2,895,102	3,667,571	49,061	95,334	29,323	6,736,391
Allowances for impairment losses						(13,493)
Subtotal						6,722,898
Total						6,727,064

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

61 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (continued)

(i) Distribution of debt investments analysed by rating (continued)

	31 December 2019					
	Unrated	AAA	AA	A	Lower than A	Total
Credit impaired						
– Banks and non-bank financial institutions	350	–	–	–	–	350
– Enterprises	6,010	–	–	–	1,901	7,911
Total	6,360	–	–	–	1,901	8,261
Allowances for impairment losses						(3,636)
Subtotal						4,625
Neither overdue nor impaired						
– Government	1,480,381	2,743,166	6,183	17,255	16,633	4,263,618
– Central banks	24,117	3,643	11,496	1,555	–	40,811
– Policy banks	746,166	5,301	2,217	26,873	–	780,557
– Banks and non-bank financial institutions	220,609	183,944	13,147	37,359	9,833	464,892
– Enterprises	96,967	299,767	55,165	26,402	4,764	483,065
Total	2,568,240	3,235,821	88,208	109,444	31,230	6,032,943
Allowances for impairment losses						(9,066)
Subtotal						6,023,877
Total						6,028,502

(j) Credit risk arising from the Group's derivative exposures

The majority of the Group's derivative transactions with domestic customers are hedged back-to-back with overseas banks and non-bank financial institutions. The Group is exposed to credit risk in respect of both domestic customers and overseas banks and non-bank financial institutions. The Group manages this risk by monitoring this exposure on a regular basis.

(k) Settlement risk

The Group's activities may give rise to settlement risk at the time of the settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of an entity to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions, the Group mitigates this risk by conducting settlements through a settlement or clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations.

(l) Sensitivity analysis

The allowance for impairment losses is sensitive to the inputs used in internally developed models, macroeconomic variables in the forward-looking forecasts, and other factors considered when applying expert judgement. Changes in these inputs, assumptions, models, and judgements would have an impact on the assessment of significant increase in credit risk and the measurement of ECLs.

(i) Sensitivity analysis of segmentation

The allowance for credit losses of performing financial assets consists of an aggregate amount of Stage 1 and Stage 2 probability-weighted ECLs which are 12-month ECLs and lifetime ECLs, respectively. A significant increase in credit risk since initial recognition will result in financial assets transferring from Stage 1 to Stage 2. The following table presents the impact of ECLs from the second year to the end of the lifetime for financial assets in Stage 2.

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61 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (continued)

(l) Sensitivity analysis (continued)

(i) Sensitivity analysis of segmentation (continued)

	31 December 2020		
	12 months credit loss of all performing financial assets	Impact of lifetime	Current ECL
Performing loans	364,768	18,759	383,527
Performing financial investments	16,554	284	16,838

	31 December 2019		
	12 months credit loss of all performing financial assets	Impact of lifetime	Current ECL
Performing loans	320,003	12,904	332,907
Performing financial investments	12,515	131	12,646

The above allowances for ECL do not contain the allowances for ECL of loans and advances measured at FVOCI.

(ii) Sensitivity analysis of macroeconomic variables

The Group has carried out sensitivity analysis of GDP forecast. As at 31 December 2020, when GDP growth rate in the baseline scenario increased or decreased by 10%, the change in ECL allowance did not exceed 5% (As at 31 December 2019: did not exceed 5%).

(2) Market risk

Market risk is the risk of loss, in respect of the Group's on and off-balance sheet activities, arising from adverse movements in market rates including interest rates, foreign exchange rates, commodity prices and stock prices. Market risk arises from both the Group's trading and non-trading businesses. A trading book consists of positions in financial instruments and commodities held either with trading intent or in order to hedge other elements of the trading book. Non-trading book records those financial instruments and commodities which are not included in the trading book.

The Group continues to improve market risk management system. The Market Risk Management Department is responsible for leading the establishment of market risk management policies and rules, developing the market risk measurement tools, monitoring and reporting the trading market risk and related daily work. The Asset and Liability Management Department (the "ALM") is responsible for managing non-trading interest rate risk, exchange rate risk and the size and structure of the assets and liabilities in response to structural market risk. The Financial Market Department manage the Bank's RMB and foreign currency investment portfolios, conducts proprietary and customer-driven transactions, as well as implementing market risk management policies and rules. The Audit Department is responsible for regularly performing independent audits of the reliability and effectiveness of the processes constituting the risk management system.

The Group's interest rate risk mainly comprises repricing risk and basis risk arising from mismatch of term structure and pricing basis of assets and liabilities. The Group uses multiple tools such as repricing gap analysis, sensitivity analysis on net interest income, scenario analysis and stress testing, etc., to monitor the interest rate risk periodically.

The Group's foreign exchange exposures mainly comprise exposures from foreign currency portfolios within treasury proprietary investments in debt securities and money market placements, and currency exposures from its overseas business. The Group manages its foreign exchange exposures by spot foreign exchange transactions and by matching its foreign currency denominated assets with corresponding liabilities in the same currency, and also uses derivatives in the management of its own foreign currency asset and liability portfolios and structural positions.

The Group is also exposed to market risk in respect of its customer driven derivative portfolio and manages this risk by entering into back-to-back hedging transactions with overseas banks and non-bank financial institutions.

The Group considers that the market risk arising from stock prices in respect of its investment portfolios is minimal.

The Group monitors market risk separately in respect of trading portfolios and non-trading portfolios. Trading portfolios include exchange rate and interest rate derivatives as well as trading securities. The historical simulation model for the Value-at-Risk ("VaR") analysis is a major tool used by the Bank to measure and monitor the market risk of its trading portfolio. 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.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

61 RISK MANAGEMENT (CONTINUED)

(2) Market risk (continued)

(a) VaR analysis

VaR is a technique which estimates the potential losses that could occur on risk positions taken, due to movements in market interest rates, foreign exchange rates and other market prices over a specified time horizon and at a given level of confidence. The Risk Management Department calculates interest rates, foreign exchange rates and commodity prices VaR for the Bank's trading portfolio. By reference to historical movements in interest rates, foreign exchange rates and commodity prices, the Risk Management Department calculates VaR on a daily basis for the trading portfolio and monitors it regularly. VaR is calculated at a confidence level of 99% and with a holding period of one day.

A summary of the VaR of the Bank's trading portfolio as at the end of the reporting period and during the respective years is as follows:

	Note	2020			
		As at 31 December	**Average**	**Maximum**	**Minimum**
VaR of trading portfolio		**141**	**250**	**317**	**137**
Of which:					
– Interest rate risk		**87**	**98**	**182**	**46**
– Foreign exchange risk	(i)	**145**	**246**	**298**	**137**
– Commodity risk		**1**	**9**	**42**	**–**

		2019			
		As at 31 December	Average	Maximum	Minimum
VaR of trading portfolio		253	302	341	227
Of which:					
– Interest rate risk		59	85	117	57
– Foreign exchange risk	(i)	262	298	361	234
– Commodity risk		4	12	31	–

(i) The VaR in relation to bullion is included in the foreign exchange risk above.

VaR for each risk factor is the independently derived largest potential loss for a specific holding period and at a given confidence level due to fluctuations solely in that risk factor. The individual VaRs do not add up to the total VaR as there is diversification effect due to correlation amongst the risk factors.

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based give rise to some limitations, including the following:

- A 1-day holding period assumes that it is possible to hedge or dispose of positions within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period;
- A 99 percent confidence level does not reflect losses that may occur beyond this level. Within the model used, there is 1 percent probability that losses could exceed the VaR;
- VaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day;
- The use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature; and
- The VaR measure is dependent upon the Bank's position and the volatility of market prices. The VaR of an unchanged position reduces if the market price volatility declines and vice versa.

61 RISK MANAGEMENT (CONTINUED)

(2) Market risk (continued)

(b) Net interest income sensitivity analysis

In monitoring interest rate risk on its overall non-derivative financial assets and liabilities, the Bank regularly measures its future net interest income sensitivity to an increase or decrease in market interest rates (assuming no asymmetrical movement in yield curves and a constant financial position). An incremental 100 basis points parallel fall or rise in all yield curves, other than that applicable to balances with central banks, would increase or decrease annualised net interest income of the Group by RMB45,546 million (as at 31 December 2019: RMB35,183 million). Had the impact of yield curves movement for demand deposits from customers been excluded, the annualised net interest income of the Group would decrease or increase by RMB80,344 million (as at 31 December 2019: RMB77,716 million).

The above interest rate sensitivity is for illustration purposes only and is assessed based on simplified assumptions. The figures here indicate estimated net interest income movements under various predicted yield curve scenarios and are subject to the Bank's current interest rate exposures. However, the possible risk management measures that can be undertaken by the interest risk management department or related business departments to mitigate interest rate risk have not been taken into account. In practice, the departments that manage the interest rate risk strive to reduce loss arising from the risk while increasing the net income. These figures are estimated on the assumption that the interest rates on various maturities will move within similar ranges, and therefore do not reflect the potential net interest income changes in the event that interest rates on some maturities may change and others remain unchanged. Moreover, the above estimations are based on other simplified assumptions, including that all positions will be held to maturity and rolled over upon maturity.

(c) Interest rate risk

Interest rate risk refers to the risk where the market interest rates, term structure and other factors may experience unfavourable fluctuations which impact the overall profitability and fair value resulting in losses to the Bank. The key determinants of the Group's interest rate risk arises from the mismatch between the maturity periods of the assets and liabilities, and inconsistent pricing basis, resulting in re-pricing risk and basis risk.

The ALM is responsible for regularly monitoring the interest rate risk positions and measuring the interest rate re-pricing gap. The main reason for measuring the interest rate re-pricing gap is to assist in analysing the impact of interest rate changes on net interest income.

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61 RISK MANAGEMENT (CONTINUED)

(2) Market risk (continued)

(c) Interest rate risk (continued)

The following tables indicate the expected next repricing dates (or maturity dates whichever are earlier) for the assets and liabilities of the Group as at the end of the reporting period.

		31 December 2020					
	Note	Non-interest-bearing	Within three months	Between three months and one year	Between one and five years	More than five years	Total
Assets							
Cash and deposits with central banks		94,006	2,722,033	125	–	–	2,816,164
Deposits and placements with banks and non-bank financial institutions		–	728,820	75,305	17,512	–	821,637
Financial assets held under resale agreements		–	597,544	4,695	–	–	602,239
Loans and advances to customers	(i)	34,352	9,009,373	6,888,551	223,064	76,029	16,231,369
Investments	(ii)	247,395	347,431	690,258	2,725,215	2,954,056	6,964,355
Others		696,490	–	–	–	–	696,490
Total assets		1,072,243	13,405,201	7,658,934	2,965,791	3,030,085	28,132,254
Liabilities							
Borrowings from central banks		–	175,189	605,165	816	–	781,170
Deposits and placements from banks and non-bank financial institutions		–	1,871,778	291,532	124,537	5,425	2,293,272
Financial liabilities measured at fair value through profit or loss		33,559	163,261	57,259	–	–	254,079
Financial assets sold under repurchase agreements		–	52,701	2,320	1,704	–	56,725
Deposits from customers		127,871	13,695,262	2,754,998	4,020,810	16,035	20,614,976
Debt securities issued		–	311,134	306,548	320,570	1,945	940,197
Others		802,482	–	–	–	–	802,482
Total liabilities		963,912	16,269,325	4,017,822	4,468,437	23,405	25,742,901
Asset-liability gap		108,331	(2,864,124)	3,641,112	(1,502,646)	3,006,680	2,389,353

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

61 RISK MANAGEMENT (CONTINUED)

(2) Market risk (continued)

(c) *Interest rate risk (continued)*

		31 December 2019					
	Note	Non-interest-bearing	Within three months	Between three months and one year	Between one and five years	More than five years	Total
Assets							
Cash and deposits with central banks		140,579	2,480,431	–	–	–	2,621,010
Deposits and placements with banks and non-bank financial institutions		–	786,464	156,770	7,566	7	950,807
Financial assets held under resale agreements		–	557,809	–	–	–	557,809
Loans and advances to customers	(i)	33,366	9,064,628	5,236,907	133,635	73,465	14,542,001
Investments	(ii)	198,917	446,844	741,615	2,706,502	2,130,716	6,224,594
Others		540,040	–	–	–	–	540,040
Total assets		912,902	13,336,176	6,135,292	2,847,703	2,204,188	25,436,261
Liabilities							
Borrowings from central banks		–	98,793	450,026	614	–	549,433
Deposits and placements from banks and non-bank financial institutions		–	1,732,057	433,752	20,269	8,173	2,194,251
Financial liabilities measured at fair value through profit or loss		16,750	174,019	90,828	–	–	281,597
Financial assets sold under repurchase agreements		–	111,111	1,480	2,067	–	114,658
Deposits from customers		104,332	12,540,537	2,438,017	3,274,102	9,305	18,366,293
Debt securities issued		–	375,884	435,756	263,561	1,374	1,076,575
Others		618,327	–	–	–	–	618,327
Total liabilities		739,409	15,032,401	3,849,859	3,560,613	18,852	23,201,134
Asset-liability gap		173,493	(1,696,225)	2,285,433	(712,910)	2,185,336	2,235,127

(i) For loans and advances to customers, the "within three months" category includes overdue amounts (net of allowances for impairment losses) of RMB27,225 million as at 31 December 2020 (as at 31 December 2019: RMB22,430 million).

(ii) Investments include financial assets measured at fair value through profit or loss, financial assets measured at amortised cost, financial assets measured at fair value through other comprehensive income and long-term equity investments, etc.

(d) *Currency risk*

The Group's foreign exchange exposures mainly comprise exposures that arise from the foreign currency proprietary investments of the treasury business and currency exposures originated by the Group's overseas businesses.

The Group manages currency risk by spot and forward foreign exchange transactions and by matching its foreign currency denominated assets with corresponding liabilities in the same currency, and also uses derivatives (principally foreign exchange swaps and cross currency swaps) in the management of its own foreign currency asset and liability portfolios and structural positions.

The Group actively manages foreign currency exposures by minimising foreign exchange risk by business lines. Therefore, the net exposure is not sensitive to exchange rate fluctuations and the potential impact on the pre-tax profits and other comprehensive income of the Group is not material.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

61 RISK MANAGEMENT (CONTINUED)

(2) Market risk (continued)

(d) Currency risk (continued)

The currency exposures of the Group's assets and liabilities as at the end of the reporting period are as follows:

		31 December 2020			
	Note	RMB	USD (RMB equivalent)	Others (RMB equivalent)	Total
Assets					
Cash and deposits with central banks		2,510,876	179,211	126,077	2,816,164
Deposits and placements with banks and non-bank financial institutions		671,014	126,735	23,888	821,637
Financial assets held under resale agreements		599,033	–	3,206	602,239
Loans and advances to customers		15,367,154	464,009	400,206	16,231,369
Investments	(i)	6,712,930	133,024	118,401	6,964,355
Others		608,498	33,831	54,161	696,490
Total assets		26,469,505	936,810	725,939	28,132,254
Liabilities					
Borrowings from central banks		749,283	19,087	12,800	781,170
Deposits and placements from banks and non-bank financial institutions		1,885,514	275,053	132,705	2,293,272
Financial liabilities measured at fair value through profit or loss		236,614	15,245	2,220	254,079
Financial assets sold under repurchase agreements		46,841	3,764	6,120	56,725
Deposits from customers		19,834,531	495,952	284,493	20,614,976
Debt securities issued		684,612	188,391	67,194	940,197
Others		785,657	8,773	8,052	802,482
Total liabilities		24,223,052	1,006,265	513,584	25,742,901
Long position		2,246,453	(69,455)	212,355	2,389,353
Net notional amount of derivatives		25,640	36,405	(59,080)	2,965
Credit commitments		2,954,494	292,663	166,373	3,413,530

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

61 RISK MANAGEMENT (CONTINUED)

(2) Market risk (continued)

(d) *Currency risk (continued)*

		31 December 2019			
	Note	RMB	USD (RMB equivalent)	Others (RMB equivalent)	Total
Assets					
Cash and deposits with central banks		2,387,072	98,576	135,362	2,621,010
Deposits and placements with banks and non-bank financial institutions		551,576	282,453	116,778	950,807
Financial assets held under resale agreements		548,770	8,591	448	557,809
Loans and advances to customers		13,571,273	544,790	425,938	14,542,001
Investments	(i)	5,937,817	187,177	99,600	6,224,594
Others		446,170	60,323	33,547	540,040
Total assets		23,442,678	1,181,910	811,673	25,436,261
Liabilities					
Borrowings from central banks		494,047	27,704	27,682	549,433
Deposits and placements from banks and non-bank financial institutions		1,611,357	432,556	150,338	2,194,251
Financial liabilities measured at fair value through profit or loss		263,310	16,339	1,948	281,597
Financial assets sold under repurchase agreements		101,879	4,252	8,527	114,658
Deposits from customers		17,550,909	504,298	311,086	18,366,293
Debt securities issued		640,246	307,218	129,111	1,076,575
Others		594,429	13,183	10,715	618,327
Total liabilities		21,256,177	1,305,550	639,407	23,201,134
Long position		2,186,501	(123,640)	172,266	2,235,127
Net notional amount of derivatives		(241,245)	272,552	(26,584)	4,723
Credit commitments		2,578,126	340,934	166,747	3,085,807

(i) Please refer to Note 61(2)(c)(ii) for the scope of investments.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

61 RISK MANAGEMENT (CONTINUED)

(3) Liquidity risk

The Board assumes the ultimate responsibility for liquidity risk management, and authorises its special committees to discharge relevant duties, and reviews and approves the liquidity risk strategy and risk appetite. The senior management carries out the liquidity risk strategy set by the Board, and organises the implementation of the liquidity risk management activities. The board of supervisors supervises and evaluates the performance of the Board and the senior management in the liquidity risk management. The asset & liability management department leads in the Bank's daily liquidity risk management, and forms an executive system together with the business management departments and branches to perform various duties in liquidity risk management. The subsidiaries assume primary responsibility for their own liquidity risk management.

The Group's objective for liquidity risk management is to ensure the security of its payment and settlement, and the overall strategy features prudence, decentralisation, coordination and diversification. Liquidity risk arises from such major factors and events as significant drop in liquidation of current assets, massive outflow of wholesale or retail deposits, decreasing access to wholesale and retail financing, shorter financing periods, increasing financing costs, significant adverse changes in market liquidity and breakdown of the Bank's payment and settlement system. In light of the regulatory requirements, external macro environment and the Bank's business development, the head office formulates approaches for liquidity risk identification, measurement and monitoring, sets out risk limit management criteria, carries out intra-day liquidity management, conducts stress testing at the group level regularly, and reviews and assesses contingency plans.

The Group conducted quarterly stress testing on its liquidity risk in order to gauge its risk tolerance in unlikely extreme scenarios and other adverse scenarios. It improved its liquidity risk stress testing methods in accordance with regulatory and internal management requirements. The results of stress testing show that under different stress scenarios, the Group's liquidity risk is under control.

The Group adopts liquidity indicator analysis, remaining maturity analysis and undiscounted cash flow analysis to measure the liquidity risk.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

61 RISK MANAGEMENT (CONTINUED)

(3) Liquidity risk (continued)

(a) *Maturity analysis*

The following tables provide an analysis of the assets and liabilities of the Group based on the remaining periods to repayment as at the end of the reporting period:

	31 December 2020							
	Indefinite	Repayable on demand	Within one month	Between one and three months	Between three months and one year	Between one and five years	More than five years	Total
Assets								
Cash and deposits with central banks	2,330,273	483,266	1,537	1,088	–	–	–	2,816,164
Deposits and placements with banks and non-bank financial institutions	–	83,441	247,624	254,203	218,418	17,951	–	821,637
Financial assets held under resale agreements	–	–	584,491	13,053	4,695	–	–	602,239
Loans and advances to customers	92,098	818,412	390,460	891,697	3,047,961	3,984,181	7,006,560	16,231,369
Investments								
– Financial assets measured at fair value through profit or loss	222,924	17,595	48,777	21,282	53,304	78,416	135,654	577,952
– Financial assets measured at amortised cost	–	–	48,828	85,526	437,453	1,623,296	2,310,140	4,505,243
– Financial assets measured at fair value through other comprehensive income	6,955	–	34,412	39,326	209,352	1,068,340	509,073	1,867,458
– Long-term equity investments	13,702	–	–	–	–	–	–	13,702
Others	317,507	100,855	12,503	40,770	109,048	26,719	89,088	696,490
Total assets	2,983,459	1,503,569	1,368,632	1,346,945	4,080,231	6,798,903	10,050,515	28,132,254
Liabilities								
Borrowings from central banks	–	–	121,089	54,100	605,165	816	–	781,170
Deposits and placements from banks and non-bank financial institutions	–	1,518,231	150,011	173,627	294,142	144,493	12,768	2,293,272
Financial liabilities measured at fair value through profit or loss	–	19,058	110,119	67,643	57,259	–	–	254,079
Financial assets sold under repurchase agreements	–	–	47,927	4,774	2,320	1,704	–	56,725
Deposits from customers	–	11,245,302	1,225,798	973,853	2,926,982	4,225,570	17,471	20,614,976
Debt securities issued	–	–	124,371	147,702	325,314	340,865	1,945	940,197
Others	23,832	283,601	80,560	56,527	231,588	24,361	102,013	802,482
Total liabilities	23,832	13,066,192	1,859,875	1,478,226	4,442,770	4,737,809	134,197	25,742,901
Net gaps	2,959,627	(11,562,623)	(491,243)	(131,281)	(362,539)	2,061,094	9,916,318	2,389,353
Notional amount of derivatives								
– Interest rate contracts	–	–	69,502	130,562	264,040	168,030	18,091	650,225
– Exchange rate contracts	–	–	877,074	692,678	1,798,058	85,774	7,437	3,461,021
– Other contracts	–	–	17,940	19,538	80,646	7,947	–	126,071
Total	–	–	964,516	842,778	2,142,744	261,751	25,528	4,237,317

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

61 RISK MANAGEMENT (CONTINUED)

(3) Liquidity risk (continued)

(a) Maturity analysis (continued)

	31 December 2019							
	Indefinite	Repayable on demand	Within one month	Between one and three months	Between three months and one year	Between one and five years	More than five years	Total
Assets								
Cash and deposits with central banks	2,160,625	459,467	–	918	–	–	–	2,621,010
Deposits and placements with banks and non-bank financial institutions	–	107,976	494,082	178,400	158,868	11,474	7	950,807
Financial assets held under resale agreements	–	–	556,268	1,541	–	–	–	557,809
Loans and advances to customers	65,019	738,080	465,482	671,619	2,960,503	3,450,610	6,190,688	14,542,001
Investments								
– Financial assets measured at fair value through profit or loss	171,984	43,619	48,539	57,976	160,471	98,657	94,115	675,361
– Financial assets measured at amortised cost	–	–	41,285	83,481	395,356	1,703,305	1,516,869	3,740,296
–Financial assets measured at fair value through other comprehensive income	6,031	–	43,664	75,244	199,948	949,217	523,480	1,797,584
– Long-term equity investments	11,353	–	–	–	–	–	–	11,353
Others	292,931	83,015	10,194	35,032	33,431	18,635	66,802	540,040
Total assets	2,707,943	1,432,157	1,659,514	1,104,211	3,908,577	6,231,898	8,391,961	25,436,261
Liabilities								
Borrowings from central banks	–	–	77,689	21,104	450,026	614	–	549,433
Deposits and placements from banks and non-bank financial institutions	–	1,152,774	335,362	205,743	441,916	45,373	13,083	2,194,251
Financial liabilities measured at fair value through profit or loss	–	16,750	110,908	63,111	90,828	–	–	281,597
Financial assets sold under repurchase agreements	–	–	106,571	4,540	1,480	2,067	–	114,658
Deposits from customers	–	10,607,372	839,045	1,026,419	2,467,053	3,414,049	12,355	18,366,293
Debt securities issued	–	–	98,943	220,082	454,317	301,859	1,374	1,076,575
Others	7,921	224,194	53,369	46,777	186,296	21,952	77,818	618,327
Total liabilities	7,921	12,001,090	1,621,887	1,587,776	4,091,916	3,785,914	104,630	23,201,134
Net gaps	2,700,022	(10,568,933)	37,627	(483,565)	(183,339)	2,445,984	8,287,331	2,235,127
Notional amount of derivatives								
– Interest rate contracts	–	–	45,899	68,259	212,359	191,131	18,097	535,745
– Exchange rate contracts	–	–	876,973	724,591	2,014,465	108,229	2,748	3,727,006
– Other contracts	–	–	51,898	19,239	14,012	635	–	85,784
Total	–	–	974,770	812,089	2,240,836	299,995	20,845	4,348,535

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

61 RISK MANAGEMENT (CONTINUED)

(3) Liquidity risk (continued)

(b) *Contractual undiscounted cash flow*

The following tables provide an analysis of the contractual undiscounted cash flow of the non-derivative financial liabilities and off-balance sheet credit commitments of the Group as at the end of the reporting period. The Group's expected cash flows on these instruments may vary significantly from this analysis.

	31 December 2020							
	Carrying amount	Gross cash outflow	Repayable on demand	Within one month	Between one and three months	Between three months and one year	Between one and five years	More than five years
Non-derivative financial liabilities								
Borrowings from central banks	781,170	794,953	–	121,383	54,293	618,461	816	–
Deposits and placements from banks and non-bank financial institutions	2,293,272	2,312,157	1,518,231	150,402	174,318	299,787	155,792	13,627
Financial liabilities measured at fair value through profit or loss	254,079	254,227	19,058	110,204	67,706	57,259	–	–
Financial assets sold under repurchase agreements	56,725	56,770	–	47,948	4,784	2,325	1,713	–
Deposits from customers	20,614,976	21,268,003	11,246,849	1,243,390	1,010,531	3,065,734	4,683,271	18,228
Debt securities issued	940,197	986,193	–	124,483	154,158	333,073	372,280	2,199
Other non-derivative financial liabilities	503,594	508,046	141,118	63,153	34,903	159,151	13,975	95,746
Total	25,444,013	26,180,349	12,925,256	1,860,963	1,500,693	4,535,790	5,227,847	129,800
Off-balance sheet loan commitments and credit card commitments (Note)		1,651,694	1,073,078	15,286	54,154	164,463	165,902	178,811
Guarantees, acceptances and other credit commitments (Note)		1,761,836	867	273,366	226,013	714,676	507,553	39,361

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

61 RISK MANAGEMENT (CONTINUED)

(3) Liquidity risk (continued)

(b) Contractual undiscounted cash flow (continued)

	31 December 2019							
	Carrying amount	Gross cash outflow	Repayable on demand	Within one month	Between one and three months	Between three months and one year	Between one and five years	More than five years
Non-derivative financial liabilities								
Borrowings from central banks	549,433	560,382	–	77,946	21,243	460,579	614	–
Deposits and placements from banks and non-bank financial institutions	2,194,251	2,210,456	1,152,774	335,747	207,065	450,499	49,939	14,432
Financial liabilities measured at fair value through profit or loss	281,597	295,086	16,750	117,134	68,828	92,374	–	–
Financial assets sold under repurchase agreements	114,658	114,988	–	106,595	4,558	1,612	2,223	–
Deposits from customers	18,366,293	18,892,932	10,608,196	854,625	1,057,288	2,573,077	3,785,830	13,916
Debt securities issued	1,076,575	1,120,060	–	99,282	221,502	465,592	332,067	1,617
Other non-derivative financial liabilities	371,367	374,864	73,448	40,290	31,445	144,112	15,339	70,230
Total	22,954,174	23,568,768	11,851,168	1,631,619	1,611,929	4,187,845	4,186,012	100,195
Off-balance sheet loan commitments and credit card commitments (Note)		1,531,436	1,071,444	17,382	18,278	116,854	133,533	173,945
Guarantees, acceptances and other credit commitments (Note)		1,554,371	–	266,135	199,086	624,246	433,275	31,629

Note: The off-balance sheet loan commitments and credit card commitments may expire without being drawn upon. Guarantees, acceptances and other credit commitments do not represent the amounts to be paid.

61 RISK MANAGEMENT (CONTINUED)

(4) Operational risk

Operational risk refers to risk of losses resulting from inadequate or flawed internal processes, people and systems or from external events.

In 2020, the Group continuously promoted the application of management tools, strengthened the prevention and control of operational risk in key areas, and took multiple measures to reduce operational risk events and losses.

- Continuously promoted the application of operational risk management tools and enhanced the operational risk assessments for new products.
- Focused on the recording, analysis and reporting of events where the Group suffered losses from non-compliance.
- Revised the manual for managing incompatible duties, key position catalogue of job rotations and mandatory leave.
- Strengthened the construction of internal control and formulated business avoidance policy.
- Based on the emergency plan in response to COVID-19, organized emergency drills, and provided guidance on emergency response to overseas institutions for the purpose of business continuity.

(5) Fair value of financial instruments

(a) Valuation process, technique and input

The Board is responsible for establishing a robust internal control policy of valuation, and takes the ultimate responsibility for the adequacy and effectiveness of internal control system. The Board of Supervisors takes charge of supervising the performance of the Board and senior management. According to the requirements of the Board and the Board of Supervisors, senior management is responsible for organising and implementing the internal control system over the valuation process to ensure the effectiveness of the internal control system of valuation.

The Group has established an independent valuation process for financial assets and financial liabilities. The relevant departments are responsible for performing valuation, verifying valuation model and accounting of valuation results.

For the year ended 31 December 2020, there was no significant change in the valuation techniques or inputs used to determine fair value as compared to those used for the year ended 31 December 2019.

(b) Fair value hierarchy

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Fair value based on quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Fair value based on inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3: Fair value based on inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

61 RISK MANAGEMENT (CONTINUED)

(5) Fair value of financial instruments (continued)

(c) Financial instruments measured at fair value

(i) Fair value hierarchy

The table below analyses financial instruments, measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised:

	31 December 2020			
	Level 1	Level 2	Level 3	Total
Assets				
Positive fair value of derivatives	–	68,992	37	69,029
Loans and advances to customers				
– Loans and advances to customers measured at fair value through profit or loss	–	9,890	–	9,890
– Loans and advances to customers measured at fair value through other comprehensive income	–	259,061	–	259,061
Financial assets measured at fair value through profit or loss				
Financial assets held for trading purposes				
– Debt securities	1,156	169,209	–	170,365
– Equity instruments and funds	1,385	30	–	1,415
Financial assets designated as measured at fair value through profit or loss				
– Other debt instruments	–	43,347	17,833	61,180
Other financial assets measured at fair value through profit or loss				
– Credit investments	–	1,021	13,181	14,202
– Debt securities	–	115,514	57	115,571
– Funds and others	27,916	50,044	137,259	215,219
Financial assets measured at fair value through other comprehensive income				
– Debt securities	119,489	1,740,584	430	1,860,503
– Equity instruments designated as measured at fair value through other comprehensive income	2,268	–	4,687	6,955
Total	152,214	2,457,692	173,484	2,783,390
Liabilities				
Financial liabilities measured at fair value through profit or loss				
– Financial liabilities designated as measured at fair value through profit or loss	–	251,973	2,106	254,079
Negative fair value of derivatives	–	81,919	37	81,956
Total	–	333,892	2,143	336,035

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

61 RISK MANAGEMENT (CONTINUED)

(5) Fair value of financial instruments (continued)

(c) Financial instruments measured at fair value (continued)

(i) Fair value hierarchy (continued)

	31 December 2019			
	Level 1	Level 2	Level 3	Total
Assets				
Positive fair value of derivatives	–	34,583	58	34,641
Loans and advances to customers				
– Loans and advances to customers measured at fair value through profit or loss	–	15,282	–	15,282
– Loans and advances to customers measured at fair value through other comprehensive income	–	492,693	–	492,693
Financial assets measured at fair value through profit or loss				
Financial assets held for trading purposes				
– Debt securities	2,059	227,887	–	229,946
– Equity instruments and funds	940	–	–	940
Financial assets designated as measured at fair value through profit or loss				
– Debt securities	774	33	8,449	9,256
– Other debt instruments	–	131,814	50,555	182,369
Other financial assets measured at fair value through profit or loss				
– Credit investments	–	1,519	4,642	6,161
– Debt securities	–	68,811	110	68,921
– Funds and others	30,695	45,027	102,046	177,768
Financial assets measured at fair value through other comprehensive income				
– Debt securities	182,323	1,609,230	–	1,791,553
– Equity instruments designated as measured at fair value through other comprehensive income	2,446	–	3,585	6,031
Total	219,237	2,626,879	169,445	3,015,561
Liabilities				
Financial liabilities measured at fair value through profit or loss				
– Financial liabilities designated as measured at fair value through profit or loss	–	279,749	1,848	281,597
Negative fair value of derivatives	–	33,724	58	33,782
Total	–	313,473	1,906	315,379

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

61 RISK MANAGEMENT (CONTINUED)

(5) Fair value of financial instruments (continued)

(c) Financial instruments measured at fair value (continued)

(i) Fair value hierarchy (continued)

A majority of the financial assets classified as level 2 are RMB bonds. The fair value of these bonds is determined based on the valuation results provided by China Central Depository & Clearing Co., Ltd. A majority of the financial liabilities designated as measured at fair value through profit or loss classified as level 2 are the funds raised from structured deposits and principal guaranteed wealth management products, the fair value of which are determined based on the income approach. The majority of derivatives are classified as level 2 and valued using income approach. For the valuation of financial instruments classified as level 2, all significant inputs are observable market data.

The financial assets classified as level 3 are primarily the underlying assets of principal guaranteed wealth management products and unlisted equity instruments measured at fair value through profit or loss. These financial assets are valued using income approach and market approach, which incorporate the non-observable assumptions including discount rate and P/B ratio.

For the year ended 31 December 2020 and 2019, there were no significant transfers within the fair value hierarchy of the Group.

(ii) Movements of fair value of financial instruments in level 3 of the fair value hierarchy

The following table shows a reconciliation from the opening balances to the ending balances for fair value measurement in level 3 of the fair value hierarchy:

	2020											
		Financial assets designated as measured at fair value through profit or loss		Other financial assets measured at fair value through profit or loss			Financial assets measured at fair value through other comprehensive income					
	Positive fair value of derivatives	Debt securities	Other debt instruments	Credit investments	Debt securities	Funds and others	Debt securities	Equity instruments	Total assets	Financial liabilities designated as measured at fair value through profit or loss	Negative fair value of derivatives	Total liabilities
As at 1 January 2020	58	8,449	50,555	4,642	110	102,046	–	3,585	169,445	(1,848)	(58)	(1,906)
Total gains or losses:												
In profit or loss	(21)	(163)	(86)	(2,501)	–	106	–	–	(2,665)	(182)	21	(161)
In other comprehensive income	–	–	–	–	–	–	–	142	142	–	–	–
Purchases	–	–	62	11,773	266	49,283	430	963	62,777	(138)	–	(138)
Sales and settlements	–	(8,286)	(32,698)	(733)	(319)	(14,176)	–	(3)	(56,215)	62	–	62
As at 31 December 2020	37	–	17,833	13,181	57	137,259	430	4,687	173,484	(2,106)	(37)	(2,143)

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

61 RISK MANAGEMENT (CONTINUED)

(5) Fair value of financial instruments (continued)

(c) Financial instruments measured at fair value (continued)

(ii) Movements of fair value of financial instruments in level 3 of the fair value hierarchy (continued)

	2019										
		Financial assets designated as measured at fair value through profit or loss		Other financial assets measured at fair value through profit or loss							
	Positive fair value of derivatives	Debt securities	Other debt instruments	Credit investments	Debt securities	Funds and others	Equity instruments designated as measured at fair value through other comprehensive income	Total assets	Financial liabilities designated as measured at fair value through profit or loss	Negative fair value of derivatives	Total liabilities
As at 1 January 2019	35	14,314	84,640	1,253	187	43,961	1,402	145,792	(1,628)	(35)	(1,663)
Total gains or losses:											
In profit or loss	23	(1,821)	(119)	53	(27)	261	–	(1,630)	(44)	(23)	(67)
In other comprehensive income	–	–	–	–	–	–	144	144	–	–	–
Purchases	–	60	313	3,929	67	65,393	2,042	71,804	(359)	–	(359)
Sales and settlements	–	(4,104)	(34,279)	(593)	(117)	(7,569)	(3)	(46,665)	183	–	183
As at 31 December 2019	58	8,449	50,555	4,642	110	102,046	3,585	169,445	(1,848)	(58)	(1,906)

In level 3 of the fair value hierarchy, total gains or losses included in profit or loss for the year in the above table are presented in net trading gain and net gain arising from investment securities.

Gains or losses on level 3 financial assets and liabilities included in the statement of comprehensive income comprise:

	2020			2019		
	Realised	**Unrealised**	**Total**	Realised	Unrealised	Total
Total gains/(loss)	**1,261**	**(4,087)**	**(2,826)**	17	(1,714)	(1,697)

(d) Financial instruments not measured at fair value

(i) Financial assets

The Group's financial assets not measured at fair value mainly include cash and deposits with central banks, deposits and placements with banks and non-bank financial institutions, financial assets held under resale agreements, loans and advances to customers and financial assets measured at amortised cost.

Deposits with central banks, deposits and placements with banks and non-bank financial institutions and financial assets held under resale agreements

Deposits with central banks, deposits and placements with banks and non-bank financial institutions and financial assets held under resale agreements are mainly priced at market interest rates and mature within one year. Accordingly, the carrying values approximate to the fair values.

Loans and advances to customers

Majority of the loans and advances to customers measured at amortised cost are repriced at least annually to the market rate. Accordingly, their carrying values approximate to the fair values.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

61 RISK MANAGEMENT (CONTINUED)

(5) Fair value of financial instruments (continued)

(d) Financial instruments not measured at fair value (continued)

(i) Financial assets (continued)

Financial assets measured at amortised cost

The following table shows the carrying values and the fair values of financial assets measured at amortised cost as at 31 December 2020 and 2019 which are not presented in the statement of financial position at their fair values.

	31 December 2020					31 December 2019				
	Carrying value	Fair value	Level 1	Level 2	Level 3	Carrying value	Fair value	Level 1	Level 2	Level 3
Financial assets measured at amortised cost	4,505,243	4,534,743	19,815	4,372,096	142,832	3,740,296	3,815,857	51,585	3,619,569	144,703
Total	4,505,243	4,534,743	19,815	4,372,096	142,832	3,740,296	3,815,857	51,585	3,619,569	144,703

(ii) Financial liabilities

The Group's financial liabilities not measured at fair value mainly include borrowings from central banks, deposits and placements from banks and non-bank financial institutions, financial assets sold under repurchase agreements, deposits from customers, and debt securities issued. As at 31 December 2020, the fair value of subordinated bonds and the eligible Tier 2 capital bonds issued was RMB282,028 million (As at 31 December 2019: RMB246,083 million) and the corresponding carrying value was RMB275,887 million (As at 31 December 2019: RMB237,593 million), and the carrying values of other financial liabilities approximated to their fair values as at the end of the reporting period. The Group uses observable inputs to measure the fair values of subordinated bonds and eligible Tier 2 capital bonds issued, and classified them as the level 2 of the fair value hierarchy.

(6) 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 an election, financial assets and financial liabilities will be settled on a gross basis. However, each party to the master netting arrangements or similar agreements will have the option to settle all such amounts on a net basis in the event of default of the other party. These financial assets and financial liabilities of the Group are not offset in accordance with IFRSs.

As at 31 December 2020, the amounts of the financial assets and financial liabilities subject to enforceable master netting arrangements or similar agreements are not material to the Group.

(7) Insurance risk

The risk under an insurance contract is the possibility that the insured event occurs and the uncertainty in the resulting claim amount. The characteristic of an insurance contract inherently decides randomness and unpredictability of the underlying insurance risk. For insurance contracts where the theory of probability is applied to pricing and provisioning of insurance contract liabilities, the principal risk that the Group faces is that the actual claims and benefit payments exceed the carrying amount of the insurance contract liabilities.

The Group manages the uncertainty of insurance risk through its underwriting strategy and policies to diversify the underwriting risks, adequate reinsurance arrangements, and enhanced underwriting control and claim control.

The Group makes related assumptions for the insurance risks and recognises insurance contract liabilities accordingly. For long-term personal insurance contracts and short-term personal insurance contracts, insurance risk may be elevated by the uncertainty of insurance risk assumptions including assumptions on death events, relevant expenses, and interest rates. For property and casualty insurance contracts, claims are often affected by natural disasters, catastrophes, terrorist attacks and other factors. In addition, the insurance risk will be affected by the policy termination, premium reduction or policyholders' refusal of payment, that is, the insurance risk will be affected by the policyholders' behaviour and decision.

61 RISK MANAGEMENT (CONTINUED)

(8) Capital management

The Bank has implemented comprehensive capital management, covering capital management policy design, capital projecting and planning, capital calculation, internal capital assessment, capital allocation, capital motivation, restriction and conduction, capital raising, monitoring and reporting, and applications of advanced approach of capital calculation on the management of the ordinary course of the business. General principles of capital management of the Bank is to continuously retain an adequate capital level, retain a certain margin of safety and a certain level of buffer based on that all regulatory requirements have been complied, and ensure that the capital can cover all kinds of risks adequately; exercise reasonable and effective capital allocation and strengthen capital restraint and incentive mechanism to support the strategic planning effectively and to restrict and conduct the business so as to increase the capital efficiency and return level continuously; tamp capital strength, and retain relatively high capital quality by achieving capital supplement with priority to the internal accumulation and utilising various capital instruments reasonably to optimise capital structure; continuously develop the advanced approach of capital management on the applications in the business management such as credit policies, credit approval and pricing.

Capital adequacy ratio is a reflection of the Group's ability to maintain a stable operation and resist adverse risks. In accordance with the CBRC's "Capital Rules for Commercial Banks (Provisional)" and relevant regulations, commercial banks should meet the minimum capital requirements from 1 January 2013. The Common Equity Tier 1 ratio should be at or above a minimum of 5%, Tier 1 ratio at or above a minimum of 6% and the total capital ratio at or above a minimum of 8%. Besides, capital conservation buffer requirements and additional buffer requirements of Global Systemically Important Banks should also be met. If a countercyclical buffer is required or the Pillar 2 capital requirement is raised by the regulator to a specific commercial bank, the minimum requirements should be met within the transitional period.

The Group timely monitors, analyses and reports capital adequacy ratios, assesses if the capital management objectives have been met and exercises effective management of capital adequacy ratio. The Group adopts various measures such as controlling asset growth, adjusting the structure of risk assets, increasing internal capital supply and raising capital through external channels, to ensure that the Common Equity Tier 1 ratio, Tier 1 ratio and total capital ratio of the Group are in full compliance with regulatory requirements and meet internal management requirements. This helps to insulate against potential risks as well as support healthy business developments. The Group now fully complies with all regulatory requirements in this respect.

The Group's capital planning has taken the regulatory requirements, the Group's development strategy and risk appetite into consideration, and based on those factors the Group projects the capital usage and need.

The capital raising management of the Group involves reasonable utilisation of various capital instruments to ensure that both external regulatory and internal capital management objectives are met, taking into account capital planning and operating environment. This helps to optimise the Group's capital structure.

Based on the approval for the Group to implement the advanced capital management method in 2014, the CBIRC approved the Group to expand the implementation scope of the advanced capital management method in April 2020. The Group calculated the capital requirements for financial institution credit exposures and corporate credit risk exposures that meet regulatory requirements with the foundation internal ratings-based approach, the capital requirements for retail credit risk exposures with the internal ratings-based approach, the capital requirements for market risk with the internal models approach, and the capital requirements for operational risk with the standardised approach.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

61 RISK MANAGEMENT (CONTINUED)

(8) Capital management (continued)

The Group's capital adequacy ratio calculated in accordance with the "Capital Rules for Commercial Banks (Provisional)" issued by the CBRC as at the end of the reporting period are as follows:

	Note	31 December 2020	31 December 2019
Common Equity Tier 1 ratio	(a)(b)(c)	**13.62%**	13.88%
Tier 1 ratio	(a)(b)(c)	**14.22%**	14.68%
Total capital ratio	(a)(b)(c)	**17.06%**	17.52%
Common Equity Tier 1 capital			
– Qualifying common share capital		**250,011**	250,011
– Capital reserve		**134,237**	134,511
– Surplus reserve		**275,995**	249,178
– General reserve		**350,647**	314,152
– Retained earnings		**1,241,127**	1,116,273
– Non-controlling interest recognised in Common Equity Tier 1 capital		**3,954**	3,535
– Others	(d)	**19,483**	32,573
Deductions for Common Equity Tier 1 capital			
– Goodwill	(e)	**2,045**	2,615
– Other intangible assets (excluding land use rights)	(e)	**4,623**	3,971
– Cash flow hedge reserves that relate to the hedging of items that are not fair valued on the balance sheet		**367**	(239)
– Investments in common equity of financial institutions being controlled but outside the scope of consolidation		**6,970**	3,910
Additional Tier 1 capital			
– Other directly issued qualifying additional Tier 1 instruments including related premium		**99,968**	119,627
– Non-controlling interest recognised in Additional Tier 1 capital		**100**	89
Tier 2 capital			
– Directly issued qualifying Tier 2 instruments including related premium		**225,016**	201,653
– Provisions in Tier 2	(f)	**245,989**	226,102
– Non-controlling interest recognised in Tier 2 capital		**159**	141
Common Equity Tier 1 capital after regulatory adjustments	(g)	**2,261,449**	2,089,976
Tier 1 capital after regulatory adjustments	(g)	**2,361,517**	2,209,692
Total capital after regulatory adjustments	(g)	**2,832,681**	2,637,588
Risk-weighted assets	(h)	**16,604,591**	15,053,291

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

61 RISK MANAGEMENT (CONTINUED)

(8) Capital management (continued)

Notes:

(a) From the first half year of 2014, the Group has adopted the advanced approach to calculate capital adequacy ratio and implemented the parallel period rules.

(b) The Common Equity Tier 1 ratio is calculated by dividing the Common Equity Tier 1 Capital after deduction by risk-weighted assets. Tier 1 ratio is calculated by dividing the Tier 1 Capital after deduction by risk-weighted assets. Total capital ratio is calculated by dividing the total capital after deduction by risk-weighted assets.

(c) The scope for calculating capital adequacy ratio of the Group includes all the domestic branches and subsidiaries in the financial sector (insurance companies excluded).

(d) Others include other comprehensive income (including foreign exchange reserve).

(e) Both balances of goodwill and other intangible assets (excluding land use right) are the net amounts after deducting relevant deferred tax liabilities.

(f) From the first half year of 2014, eligible excessive loan provisions were measured based on the advanced approach and implemented parallel period rules.

(g) Common Equity Tier 1 capital after regulatory adjustments is calculated by netting off the corresponding deduction items from the Common Equity Tier 1 capital. Tier 1 capital after regulatory adjustments is calculated by netting off the corresponding deduction items from the Tier 1 capital. Total capital after regulatory adjustments is calculated by netting off the corresponding deduction items from the total capital.

(h) According to the rules of advanced approach, risk-weighted assets include credit risk-weighted assets, market risk-weighted assets, operational risk-weighted assets and excess risk-weighted assets due to the application of capital floor.

62 STATEMENT OF FINANCIAL POSITION AND STATEMENT OF CHANGES IN EQUITY OF THE BANK

	31 December 2020	31 December 2019
Assets:		
Cash and deposits with central banks	**2,790,965**	2,609,597
Deposits with banks and non-bank financial institutions	**406,533**	368,495
Precious metals	**101,671**	46,169
Placements with banks and non-bank financial institutions	**460,991**	586,245
Positive fair value of derivatives	**66,313**	32,091
Financial assets held under resale agreements	**585,310**	551,985
Loans and advances to customers	**15,764,751**	14,053,834
Financial investments		
Financial assets measured at fair value through profit or loss	**312,014**	388,350
Financial assets measured at amortised cost	**4,397,169**	3,646,480
Financial assets measured at fair value through other comprehensive income	**1,792,488**	1,710,424
Long-term equity investments	**70,892**	69,290
Investments in consolidated structured entities	**68,629**	111,113
Fixed assets	**137,218**	138,898
Land use rights	**13,236**	13,400
Intangible assets	**4,203**	3,504
Deferred tax assets	**89,980**	68,597
Other assets	**231,764**	200,857
Total assets	**27,294,127**	24,599,329

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

62 STATEMENT OF FINANCIAL POSITION AND STATEMENT OF CHANGES IN EQUITY OF THE BANK (CONTINUED)

	31 December 2020	31 December 2019
Liabilities:		
Borrowings from central banks	781,170	549,339
Deposits from banks and non-bank financial institutions	1,935,410	1,658,501
Placements from banks and non-bank financial institutions	256,325	417,963
Financial liabilities measured at fair value through profit or loss	251,898	279,700
Negative fair value of derivatives	78,424	32,710
Financial assets sold under repurchase agreements	33,364	93,194
Deposits from customers	20,289,611	18,024,561
Accrued staff costs	30,547	34,584
Taxes payable	82,374	82,164
Provisions	51,660	40,334
Debt securities issued	863,083	1,001,304
Deferred tax liabilities	48	42
Other liabilities	321,698	217,263
Total liabilities	24,975,612	22,431,659

	31 December 2020	31 December 2019
Equity:		
Share capital	250,011	250,011
Other equity instruments		
Preference Shares	59,977	79,636
Perpetual Bonds	39,991	39,991
Capital reserve	134,835	135,109
Other comprehensive income	21,759	33,527
Surplus reserve	275,995	249,178
General reserve	342,174	306,686
Retained earnings	1,193,773	1,073,532
Total equity	2,318,515	2,167,670
Total liabilities and equity	27,294,127	24,599,329

Approved and authorised for issue by the Board of Directors on 26 March 2021.

Wang Jiang	**Kenneth Patrick Chung**	**Graeme Wheeler**
Vice Chairman, executive director and president	*Independent non-executive director*	*Independent non-executive director*

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

62 STATEMENT OF FINANCIAL POSITION AND STATEMENT OF CHANGES IN EQUITY OF THE BANK (CONTINUED)

	Share capital	Other equity instruments: Preference shares	Other equity instruments: Perpetual bonds	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Total equity
As at 1 January 2020	250,011	79,636	39,991	135,109	33,527	249,178	306,686	1,073,532	2,167,670
Movements during the year	–	(19,659)	–	(274)	(11,768)	26,817	35,488	120,241	150,845
(1) Total comprehensive income for the year	–	–	–	–	(11,768)	–	–	268,174	256,406
(2) Changes in share capital									
i Capital deduction by other equity instruments holders	–	(19,659)	–	(274)	–	–	–	–	(19,933)
(3) Profit distribution									
i Appropriation to surplus reserve	–	–	–	–	–	26,817	–	(26,817)	–
ii Appropriation to general reserve	–	–	–	–	–	–	35,488	(35,488)	–
iii Dividends to ordinary shareholders	–	–	–	–	–	–	–	(80,004)	(80,004)
iv Dividends to other equity instrument holders	–	–	–	–	–	–	–	(5,624)	(5,624)
As at 31 December 2020	250,011	59,977	39,991	134,835	21,759	275,995	342,174	1,193,773	2,318,515

	Share capital	Other equity instruments: Preference shares	Other equity instruments: Perpetual bonds	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Total equity
As at 1 January 2019	250,011	79,636	–	135,109	21,539	223,231	272,867	954,297	1,936,690
Movements during the year	–	–	39,991	–	11,988	25,947	33,819	119,235	230,980
(1) Total comprehensive income for the year	–	–	–	–	11,988	–	–	259,466	271,454
(2) Changes in share capital									
i Capital injection by other equity instruments holders	–	–	39,991	–	–	–	–	–	39,991
(3) Profit distribution									
i Appropriation to surplus reserve	–	–	–	–	–	25,947	–	(25,947)	–
ii Appropriation to general reserve	–	–	–	–	–	–	33,819	(33,819)	–
iii Dividends to ordinary shareholders	–	–	–	–	–	–	–	(76,503)	(76,503)
iv Dividends to other equity instrument holders	–	–	-	–	–	–	–	(3,962)	(3,962)
As at 31 December 2019	250,011	79,636	39,991	135,109	33,527	249,178	306,686	1,073,532	2,167,670

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

63 EVENTS AFTER THE REPORTING PERIOD

On 26 January 2021, the Group issued in the domestic market a 3-year special financial bond for small and micro enterprise loans with a fixed interest rate of 3.30% and a total face value of RMB20.00 billion. The funds raised were specifically used to grant small and micro enterprise loans.

On 28 January 2021, the Group issued in the domestic market RMB6.00 billion subordinated bonds maturing in 2031. These bonds are fixed interest rate bonds with 10-year term. The Group has an option to redeem these bonds at the end of the fifth year upon meeting certain conditions.

64 COMPARATIVE FIGURES

To comply with the presentation requirements of the current year financial statements, the Group adjusted the presentation of certain comparative figures such as income from credit card instalment business.

65 ULTIMATE PARENT

As stated in Note 1, the immediate and ultimate parents of the Group are Huijin and CIC, respectively.

66 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

Up to the date of issue of the financial statements, the IASB has issued the following amendments, new standards and interpretations which are relevant to the Group. These amendments, new standards and interpretations are not yet effective for the year ended 31 December 2020 and have not been adopted in the financial statements.

	Standards	**Effective for annual periods beginning on or after**
(1)	Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 "Interest Rate Benchmark Reform – Phase 2"	1 January 2021
(2)	Amendments to IFRS 3 "Reference to the Conceptual Framework"	1 January 2022
(3)	Amendments to IAS 16 "Property, Plant and Equipment: Proceeds before Intended Use"	1 January 2022
(4)	Amendments to IAS 37 "Onerous Contracts – Costs of Fulfilling a Contract"	1 January 2022
(5)	Annual Improvements to IFRSs 2018-2020 Cycle	1 January 2022
(6)	Amendments to IAS 1 "Classification of Liabilities as Current or Non-current"	1 January 2023
(7)	IFRS 17 "Insurance Contracts"	1 January 2023
(8)	Amendments to IAS 1 "Disclosure of Accounting Policies" and amendments to IFRS Practice Statement 2 Materiality Judgements	1 January 2023
(9)	Amendments to IAS 8 "Definition of Accounting Estimates"	1 January 2023
(10)	Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"	Effective date has been deferred indefinitely

Except for IFRS 17, the Group anticipates that the adoption of the new standards and amendments will not have a significant impact on the Group's consolidated financial statements.

(1) Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 "Interest Rate Benchmark Reform – Phase 2"

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 are aimed at addressing accounting issues when an existing interest rate benchmark is replaced with an alternative risk-free rate. The amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of IFRS 9 to measure and recognise hedge ineffectiveness.

The amendment provides a provisional exemption. When a company expects reasonably that the alternative benchmark interest rate will meet the separately identifiable requirements within 24 months from the date when it is designated as a non-contractually clear risk component, it shall be deemed to meet the separately identifiable requirements. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy.

66 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE (CONTINUED)

(2) Amendments to IFRS 3 "Reference to the Conceptual Framework"

Amendments to IFRS 3 are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements issued in 1989 with a reference to the Conceptual Framework for Financial Reporting issued in March 2018, without significantly changing its requirements. The amendments add an exception to the recognition principle of IFRS 3 to avoid the issue of potential "day 2" gains or losses arising for liabilities and contingent liabilities, and clarify that contingent assets do not qualify for recognition at the acquisition date.

(3) Amendments to IAS 16 "Property, Plant and Equipment: Proceeds before Intended Use"

Amendments to IAS 16 prohibit entities from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the cost of producing those items, in profit or loss.

(4) Amendments to IAS 37 "Onerous Contracts – Costs of Fulfilling a Contract"

Amendments to IAS 37 specify that the "cost of fulfilling" a contract comprises the "costs that relate directly to the contract". The costs that relate directly to a contract include both incremental costs (examples would be the costs of direct labour and materials) and an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

(5) Annual Improvements to IFRSs 2018-2020 Cycle

Annual Improvements to IFRSs 2018-2020 Cycle was issued in May 2020. Those amendments affect IFRS 1 "First-time Adoption of International Financial Reporting Standards", IFRS 9 "Financial Instruments", IAS 41 "Agriculture" and IFRS 16 "Leases".

(6) Amendments to IAS 1 "Classification of Liabilities as Current or Non-current"

The IASB issued amendments to IAS 1 to specify the requirements for classifying liabilities as current or non-current.

The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

(7) IFRS 17 "Insurance Contracts"

IFRS 17 was issued in May 2017 as replacement for IFRS 4 Insurance Contracts. It requires a current measurement model where estimates are re-measured during 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 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.

Amendments to IFRS 17 were issued in June 2020.

The Group is currently assessing the impact of IFRS 17 upon initial application.

66 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE (CONTINUED)

(8) Amendments to IAS 1 "Disclosure of Accounting Policies" and amendments to IFRS Practice Statement 2 Materiality Judgements

The amendments to IAS 1 replace the requirement to disclose 'significant' accounting policies with a requirement to disclose 'material' accounting policies. Guidance and illustrative examples are added in the Practice Statement 2 to assist in the application of the materiality concept when making judgements about accounting policy disclosures.

(9) Amendments to IAS 8 "Definition of Accounting Estimates"

Amendments to IAS 8, introduces a new definition of 'accounting estimates'. Accounting estimates are defined as "monetary amounts in financial statements that are subject to measurement uncertainty". The amendments clarify what changes in accounting estimates are and how these differ from changes in accounting policies and corrections of errors

(10) Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"

The narrow-scope amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" clarify the accounting treatment for sales or contribution of assets between an investor and its associates or joint ventures. They confirm that the accounting treatment depends on whether the non-monetary assets sold or contributed to an associate or joint venture constitute a "business" (as defined in IFRS 3 "Business Combinations").

Where the non-monetary assets constitute a business, the investor will recognise the full gain or loss on the sale or contribution of assets. If the assets do not meet the definition of a business, the gain or loss is recognised by the investor only to the extent of the other investor's investors in the associate or joint venture. The amendments apply prospectively.

Report on Review of Interim Financial Information

27/F, One Taikoo Place,
979 King's Road,
Quarry Bay, Hong Kong

To the Board of Directors of China Construction Bank Corporation
(Established in the People's Republic of China with limited liability)

Introduction

We have reviewed the accompanying interim condensed financial information set out on pages 71 to 170, which comprises the consolidated statement of financial position of China Construction Bank Corporation (the "Bank") and its subsidiaries (the "Group") as at 30 June 2021 and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six-month period then ended, and condensed 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* ("IAS 34") issued by the International Accounting Standards Board. The directors of the Bank are responsible for the preparation and presentation of interim condensed financial information in accordance with IAS 34. Our responsibility is to express a conclusion on this interim condensed financial information based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed financial information is not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young
Certified Public Accountants

Hong Kong
27 August 2021

Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2021
(Expressed in millions of RMB, unless otherwise stated)

	Note	Six months ended 30 June 2021 (Unaudited)	Six months ended 30 June 2020 (Unaudited)
Interest income		**515,949**	485,537
Interest expense		**(219,864)**	(204,029)
Net interest income	3	**296,085**	281,508
Fee and commission income		**77,570**	72,706
Fee and commission expense		**(8,132)**	(7,700)
Net fee and commission income	4	**69,438**	65,006
Net trading gain	5	**2,870**	3,313
Dividend income	6	**3,657**	1,496
Net gain arising from investment securities	7	**1,853**	3,984
Net gain on derecognition of financial assets measured at amortised cost	8	**2,527**	1,381
Other operating income, net:			
– Other operating income		**40,289**	32,779
– Other operating expense		**(35,812)**	(29,543)
Other operating income, net	9	**4,477**	3,236
Operating income		**380,907**	359,924
Operating expenses	10	**(88,160)**	(79,805)
		292,747	280,119
Credit impairment losses	11	**(108,320)**	(111,378)
Other impairment losses	12	**(192)**	(188)
Share of profits of associates and joint ventures		**228**	220
Profit before tax		**184,463**	168,773
Income tax expense	13	**(30,357)**	(29,834)
Net profit		**154,106**	138,939
Other comprehensive income:			
(1) Other comprehensive income that will not be reclassified to profit or loss			
Remeasurements of post-employment benefit obligations		**121**	160
Fair value changes of equity instruments designated as measured at fair value through other comprehensive income		**(139)**	(277)
Others		**4**	–
Subtotal		**(14)**	(117)
(2) Other comprehensive income that may be reclassified subsequently to profit or loss			
Fair value changes of debt instruments measured at fair value through other comprehensive income		**2,627**	6,825
Allowances for credit losses of debt instruments measured at fair value through other comprehensive income		**(47)**	605
Reclassification adjustments included in profit or loss due to disposals		**(248)**	(377)
Net gain on cash flow hedges		**245**	115
Exchange difference on translating foreign operations		**(2,819)**	180
Subtotal		**(242)**	7,348
Other comprehensive income for the period, net of tax		**(256)**	7,231
Total comprehensive income for the period		**153,850**	146,170

The notes on pages 78 to 170 form part of these financial statements.

Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2021
(Expressed in millions of RMB, unless otherwise stated)

	Note	Six months ended 30 June	
		2021 (Unaudited)	2020 (Unaudited)
Net profit attributable to:			
Equity shareholders of the Bank		**153,300**	137,626
Non-controlling interests		**806**	1,313
		154,106	138,939
Total comprehensive income attributable to:			
Equity shareholders of the Bank		**153,007**	144,813
Non-controlling interests		**843**	1,357
		153,850	146,170
Basic and diluted earnings per share (in RMB Yuan)	14	**0.61**	0.55

The notes on pages 78 to 170 form part of these financial statements.

Consolidated Statement of Financial Position

As at 30 June 2021
(Expressed in millions of RMB, unless otherwise stated)

	Note	**30 June 2021 (Unaudited)**	31 December 2020 (Audited)
Assets:			
Cash and deposits with central banks	15	**2,780,438**	2,816,164
Deposits with banks and non-bank financial institutions	16	**469,534**	453,233
Precious metals		**132,842**	101,671
Placements with banks and non-bank financial institutions	17	**330,107**	368,404
Positive fair value of derivatives	18	**52,304**	69,029
Financial assets held under resale agreements	19	**705,282**	602,239
Loans and advances to customers	20	**17,493,902**	16,231,369
Financial investments	21		
Financial assets measured at fair value through profit or loss		**575,380**	577,952
Financial assets measured at amortised cost		**4,696,655**	4,505,243
Financial assets measured at fair value through other comprehensive income		**1,956,288**	1,867,458
Long-term equity investments	22	**14,755**	13,702
Fixed assets	24	**166,138**	172,505
Land use rights	25	**13,818**	14,118
Intangible assets	26	**5,100**	5,279
Goodwill	27	**2,168**	2,210
Deferred tax assets	28	**102,518**	92,950
Other assets	29	**335,959**	238,728
Total assets		**29,833,188**	28,132,254
Liabilities:			
Borrowings from central banks	31	**765,913**	781,170
Deposits from banks and non-bank financial institutions	32	**1,778,272**	1,943,634
Placements from banks and non-bank financial institutions	33	**366,938**	349,638
Financial liabilities measured at fair value through profit or loss	34	**292,401**	254,079
Negative fair value of derivatives	18	**43,797**	81,956
Financial assets sold under repurchase agreements	35	**115,668**	56,725
Deposits from customers	36	**22,317,969**	20,614,976
Accrued staff costs	37	**31,387**	35,460
Taxes payable	38	**51,114**	84,161
Provisions	39	**63,729**	54,114
Debt securities issued	40	**957,161**	940,197
Deferred tax liabilities	28	**1,401**	1,551
Other liabilities	41	**585,097**	545,240
Total liabilities		**27,370,847**	25,742,901
Equity:			
Share capital	42	**250,011**	250,011
Other equity instruments	43		
Preference shares		**59,977**	59,977
Perpetual bonds		**39,991**	39,991
Capital reserve	44	**134,924**	134,263
Other comprehensive income	45	**14,755**	15,048
Surplus reserve	46	**275,995**	275,995
General reserve	47	**349,885**	350,228
Retained earnings	48	**1,311,434**	1,239,295
Total equity attributable to equity shareholders of the Bank		**2,436,972**	2,364,808
Non-controlling interests		**25,369**	24,545
Total equity		**2,462,341**	2,389,353
Total liabilities and equity		**29,833,188**	28,132,254

Approved and authorised for issue by the Board of Directors on 27 August 2021.

Wang Jiang	**Kenneth Patrick Chung**	**Michel Madelain**
Vice Chairman, executive director and president	*Independent non-executive director*	*Independent non-executive director*

The notes on pages 78 to 170 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2021
(Expressed in millions of RMB, unless otherwise stated)

	(Unaudited)									
	Attributable to equity shareholders of the Bank									
		Other equity instruments								
	Share capital	Preference shares	Perpetual bonds	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Non-controlling interests	Total equity
As at 1 January 2021	**250,011**	**59,977**	**39,991**	**134,263**	**15,048**	**275,995**	**350,228**	**1,239,295**	**24,545**	**2,389,353**
Movements during the period	**–**	**–**	**–**	**661**	**(293)**	**–**	**(343)**	**72,139**	**824**	**72,988**
(1) Total comprehensive income for the period	**–**	**–**	**–**	**–**	**(293)**	**–**	**–**	**153,300**	**843**	**153,850**
(2) Changes in share capital										
i Change in shareholdings in subsidiaries	**–**	**–**	**–**	**661**	**–**	**–**	**–**	**–**	**109**	**770**
(3) Profit distribution										
i Appropriation to general reserve	**–**	**–**	**–**	**–**	**–**	**–**	**(343)**	**343**	**–**	**–**
ii Dividends to ordinary shareholders	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(81,504)**	**–**	**(81,504)**
iii Dividends to non-controlling interests holders	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(128)**	**(128)**
As at 30 June 2021	**250,011**	**59,977**	**39,991**	**134,924**	**14,755**	**275,995**	**349,885**	**1,311,434**	**25,369**	**2,462,341**

	(Unaudited)									
	Attributable to equity shareholders of the Bank									
		Other equity instruments								
	Share capital	Preference shares	Perpetual bonds	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Non-controlling interests	Total equity
As at 1 January 2020	250,011	79,636	39,991	134,537	31,986	249,178	314,389	1,116,529	18,870	2,235,127
Movements during the period	–	–	–	–	7,187	–	132	57,490	1,381	66,190
(1) Total comprehensive income for the period	–	–	–	–	7,187	–	–	137,626	1,357	146,170
(2) Changes in share capital										
i Capital injection by other shareholders	–	–	–	–	–	–	–	–	75	75
ii Change in shareholdings in subsidiaries	–	–	–	–	–	–	–	–	58	58
iii Disposal of subsidiaries	–	–	–	–	–	–	–	–	(14)	(14)
(3) Profit distribution										
i Appropriation to general reserve	–	–	–	–	–	–	132	(132)	–	–
ii Dividends to ordinary shareholders	–	–	–	–	–	–	–	(80,004)	–	(80,004)
iii Dividends to non-controlling interests holders	–	–	–	–	–	–	–	–	(95)	(95)
As at 30 June 2020	250,011	79,636	39,991	134,537	39,173	249,178	314,521	1,174,019	20,251	2,301,317

The notes on pages 78 to 170 form part of these financial statements.

(Expressed in millions of RMB, unless otherwise stated)

	(Audited)									
	Attributable to equity shareholders of the Bank									
		Other equity instruments								
	Share capital	Preference shares	Perpetual bonds	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Non-controlling interests	Total equity
As at 1 January 2020	250,011	79,636	39,991	134,537	31,986	249,178	314,389	1,116,529	18,870	2,235,127
Movements during the year	–	(19,659)	–	(274)	(16,938)	26,817	35,839	122,766	5,675	154,226
(1) Total comprehensive income for the year	–	–	–	–	(16,938)	–	–	271,050	2,549	256,661
(2) Changes in share capital										
i Capital injection by other shareholders	–	–	–	–	–	–	–	–	3,607	3,607
ii Capital deduction by other equity instrument holders	–	(19,659)	–	(274)	–	–	–	–	–	(19,933)
iii Disposal of subsidiaries	–	–	–	–	–	–	–	–	(15)	(15)
iv Change in shareholdings in subsidiaries	–	–	–	–	–	–	–	–	46	46
(3) Profit distribution										
i Appropriation to surplus reserve	–	–	–	–	–	26,817	–	(26,817)	–	–
ii Appropriation to general reserve	–	–	–	–	–	–	35,839	(35,839)	–	–
iii Dividends to ordinary shareholders	–	–	–	–	–	–	–	(80,004)	–	(80,004)
iv Dividends to other equity instruments holders	–	–	–	–	–	–	–	(5,624)	–	(5,624)
v Dividends to non-controlling interests holders	–	–	–	–	–	–	–	–	(512)	(512)
As at 31 December 2020	250,011	59,977	39,991	134,263	15,048	275,995	350,228	1,239,295	24,545	2,389,353

The notes on pages 78 to 170 form part of these financial statements.

Consolidated Statement of Cash Flows

For the six months ended 30 June 2021
(Expressed in millions of RMB, unless otherwise stated)

	Note	Six months ended 30 June 2021 (Unaudited)	Six months ended 30 June 2020 (Unaudited)
Cash flows from operating activities			
Profit before tax		**184,463**	168,773
Adjustments for:			
– Credit impairment losses	11	**108,320**	111,378
– Other impairment losses	12	**192**	188
– Depreciation and amortisation	10	**13,185**	13,070
– Interest income from impaired financial assets		**(2,364)**	(1,710)
– Revaluation loss on financial instruments measured at fair value through profit or loss		**552**	484
– Share of profits of associates and joint ventures		**(228)**	(220)
– Dividend income	6	**(3,657)**	(1,496)
– Unrealised foreign exchange (gain)/loss		**(8,347)**	1,823
– Interest expense on bonds issued		**9,014**	8,432
– Interest income from investment securities and net income from disposal		**(110,080)**	(101,697)
– Net (gain)/loss on disposal of fixed assets and other long-term assets		**(182)**	21
		190,868	199,046
Changes in operating assets:			
Net decrease/(increase) in deposits with central banks and with banks and non-bank financial institutions		**67,846**	(605,099)
Net decrease/(increase) in placements with banks and non-bank financial institutions		**6,791**	(24,339)
Net (increase)/decrease in financial assets held under resale agreements		**(103,211)**	105,505
Net increase in loans and advances to customers		**(1,365,735)**	(1,458,816)
Net decrease in financial assets held for trading purposes		**5,879**	31,373
Net increase in other operating assets		**(123,181)**	(184,720)
		(1,511,611)	(2,136,096)
Changes in operating liabilities:			
Net (decrease)/increase in borrowings from central banks		**(20,583)**	38,549
Net increase in deposits from customers and from banks and non-bank financial institutions		**1,512,541**	2,073,737
Net increase/(decrease) in placements from banks and non-bank financial institutions		**19,702**	(57,500)
Net increase in financial liabilities measured at fair value through profit or loss		**38,521**	130,648
Net increase in financial assets sold under repurchase agreements		**59,138**	10,031
Net decrease in certificates of deposit issued		**(20,463)**	(167,508)
Income tax paid		**(74,013)**	(81,859)
Net (decrease)/increase in other operating liabilities		**(21,941)**	53,652
		1,492,902	1,999,750
Net cash from operating activities		**172,159**	62,700

The notes on pages 78 to 170 form part of these financial statements.

(Expressed in millions of RMB, unless otherwise stated)

	Note	Six months ended 30 June	
		2021 (Unaudited)	2020 (Unaudited)
Cash flows from investing activities			
Proceeds from sales and redemption of financial investments		**1,000,396**	782,014
Interest and dividends received		**111,886**	97,230
Proceeds from disposal of fixed assets and other long-term assets		**1,049**	473
Purchase of investment securities		**(1,287,737)**	(1,319,629)
Purchase of fixed assets and other long-term assets		**(5,422)**	(6,203)
Acquisition of subsidiaries, associates and joint ventures		**(1,440)**	(2,580)
Cash payment for other investing activities		**–**	(21)
Net cash used in investing activities		**(181,268)**	(448,716)
Cash flows from financing activities			
Issue of bonds		**54,102**	25,947
Cash received from subsidiaries' capital injection by non-controlling interests holders		**770**	75
Dividends paid		**(100)**	(95)
Repayment of borrowings		**(18,203)**	(36,884)
Cash paid by subsidiaries for purchase of non-controlling interests holders' equity		**–**	(19)
Interest paid on bonds issued		**(2,293)**	(3,418)
Cash payment for other financing activities		**(3,317)**	(3,939)
Net cash from/(used in) financing activities		**30,959**	(18,333)
Effect of exchange rate changes on cash and cash equivalents		**(4,623)**	4,766
Net increase/(decrease) in cash and cash equivalents		**17,227**	(399,583)
Cash and cash equivalents as at 1 January	49	**878,931**	1,052,340
Cash and cash equivalents as at 30 June	49	**896,158**	652,757
Cash flows from operating activities include:			
Interest received, excluding interest income from investment securities		**400,886**	372,826
Interest paid, excluding interest expense on bonds issued		**(166,364)**	(159,512)

The notes on pages 78 to 170 form part of these financial statements.

1 Company information

The history of China Construction Bank Corporation (the "Bank") dates back to 1954, which was previously known as the People's Construction Bank of China when it was established. It was responsible for the management and distribution of government funds for construction and infrastructure related projects under the state economic plan. The People's Construction Bank of China gradually evolved into a comprehensive commercial bank following the takeover of the function of granting policy loans by China Development Bank in 1994. In 1996, the People's Construction Bank of China changed its name to China Construction Bank ("CCB"). On 17 September 2004, China Construction Bank Corporation was established in the People's Republic of China (the "PRC") as a result of a separation procedure undertaken by its predecessor, China Construction Bank. In October 2005 and September 2007, the Bank's H shares and A shares were listed on the Hong Kong Stock Exchange (Stock Code: 939) and the Shanghai Stock Exchange (Stock Code: 601939), successively. As at 30 June 2021, the Bank issued the total ordinary share capital of RMB250,011 million, with a par value of RMB1.00 per share.

The Bank obtained its finance permit No. B0004H111000001 from the China Banking Regulatory Commission ("CBRC") (In 2018, it was renamed as China Banking and Insurance Regulatory Commission, hereinafter referred to as the "CBIRC") of the PRC. The Bank obtained its unified social credit code No.911100001000044477 from the Beijing Administration for Industry and Commerce. The registered office of the Bank is located at No.25, Financial Street, Xicheng District, Beijing, the PRC.

The principal activities of the Bank and its subsidiaries (collectively the "Group") are the provision of corporate and personal banking services, conducting treasury business, the provision of asset management, trustee, finance leasing, investment banking, insurance and other financial services. The Group mainly operates in the Chinese mainland and also has a number of overseas branches and subsidiaries. For the purpose of these financial statements, "the Chinese mainland" refers to the PRC excluding the Hong Kong Special Administrative Region of the PRC ("Hong Kong"), the Macau Special Administrative Region of the PRC ("Macau") and Taiwan. "Overseas" refers to countries and regions other than the Chinese mainland.

The Bank is under the supervision of the banking regulatory bodies empowered by the State Council of the PRC (the "State Council"). The overseas financial institutions of the Bank are required to comply with the regulatory requirements of their respective local jurisdictions. Central Huijin Investment Ltd. ("Huijin"), a wholly-owned subsidiary of China Investment Corporation ("CIC"), exercises its rights and obligations as an investor in accordance with laws on behalf of the PRC government.

2 Basis of preparation and significant accounting policies

(1) Basis of preparation

The interim financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 Interim Financial Reporting and all applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

The unaudited interim financial statements contain selected explanatory notes, which provide explanations of events and transactions that are significant to the understanding of the changes in financial position and performance of the Group since the financial statements for the year ended 31 December 2020. The selected notes do not include all of the information and disclosures required for a full set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs"), and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2020.

(2) Use of estimates and assumptions

The preparation of the interim financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results in the future may differ from those reported as a result of the use of estimates and assumptions about future conditions.

(3) Consolidation

The interim financial statements comprise the Bank and its subsidiaries and the Group's interests in associates and joint ventures.

The financial results and performance of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Necessary adjustments on the accounting period and accounting policies of subsidiaries are made to comply with those of the Bank. Intragroup balances and transactions, and any profits or losses arising from intragroup transactions are eliminated in full in preparing the consolidated financial statements.

The Group's interests in associates or joint ventures are included from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. Profits and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's interests in the associates or joint ventures.

(Expressed in millions of RMB, unless otherwise stated)

2 Basis of preparation and significant accounting policies (continued)

(4) Changes in significant accounting policies

The Group has adopted the following amendments for the first time for the current interim period.

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform: Phase 2
Amendments to IFRS 16	COVID-19-Related Rent Concessions beyond 30 June 2021

The adoption of the above amendments does not have a significant impact on the Group's consolidated financial statements.

Except for those described above, the significant accounting policies adopted by the Group for the interim financial statements are consistent with those applied in the preparation of the Group's annual financial statements for the year ended 31 December 2020.

(5) Taxation

The Group's main applicable taxes and tax rates are as follows:

Value added tax ("VAT")

Pursuant to the Circular on the Comprehensive Plan for Levying VAT in place of Business Tax (CaiShui [2016] No.36) jointly issued by the Ministry of Finance and the State Administration of Taxation, business tax that used to be levied on taxable income of the Bank and its subsidiaries in the Chinese mainland was replaced by VAT from 1 May 2016, and the main VAT taxation rate is 6%.

City construction tax

City construction tax is calculated as 1% to 7% of VAT.

Education surcharge

Education surcharge is calculated as 3% of VAT.

Local education surcharge

Local education surcharge is calculated as 2% of VAT.

Income tax

The income tax rate that is applicable to the Bank and its subsidiaries in the Chinese mainland is 25%. Taxation on overseas operations is charged at the relevant local rates. Tax paid on overseas operations is set off to the extent allowed under the relevant income tax laws of the PRC.

(6) Interim financial statements

The interim financial statements have been reviewed by the Audit Committee of the Bank, and were approved by the Board of Directors of the Bank on 27 August 2021. The interim financial statements have also been reviewed by the Bank's auditors, Ernst & Young, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

The financial information relating to the financial year ended 31 December 2020 that is included in the interim financial statements is derived from those financial statements. The auditors have expressed an unqualified opinion on those financial statements in their report dated 26 March 2021.

(Expressed in millions of RMB, unless otherwise stated)

3 Net interest income

	Six months ended 30 June	
	2021	2020
Interest income arising from:		
Deposits with central banks	**18,514**	17,688
Deposits with banks and non-bank financial institutions	**6,891**	7,608
Placements with banks and non-bank financial institutions	**2,824**	5,517
Financial assets held under resale agreements	**6,239**	5,321
Investment securities	**108,236**	97,783
Loans and advances to customers		
– Corporate loans and advances	**191,612**	180,145
– Personal loans and advances	**179,043**	165,056
– Discounted bills	**2,590**	6,419
Total	**515,949**	485,537
Interest expense arising from:		
Borrowings from central banks	**(10,692)**	(9,136)
Deposits from banks and non-bank financial institutions	**(16,429)**	(21,778)
Placements from banks and non-bank financial institutions	**(2,552)**	(5,562)
Financial assets sold under repurchase agreements	**(326)**	(561)
Debt securities issued	**(14,323)**	(16,085)
Deposits from customers		
– Corporate deposits	**(76,264)**	(68,763)
– Personal deposits	**(99,278)**	(82,144)
Total	**(219,864)**	(204,029)
Net interest income	**296,085**	281,508

(1) Interest income from impaired financial assets is listed as follows:

	Six months ended 30 June	
	2021	2020
Impaired loans and advances	**2,355**	1,639
Other impaired financial assets	**9**	71
Total	**2,364**	1,710

(2) Interest expense on financial liabilities with maturity over five years mainly represented the interest expense on debt securities issued.

(Expressed in millions of RMB, unless otherwise stated)

4 Net fee and commission income

	Six months ended 30 June	
	2021	2020
Fee and commission income		
Electronic banking service fees	**14,429**	14,308
Agency service fees	**11,842**	10,053
Commission on trust and fiduciary activities	**10,980**	9,491
Bank card fees	**10,443**	10,483
Wealth management service fees	**9,116**	8,536
Consultancy and advisory fees	**8,520**	7,989
Settlement and clearing fees	**7,943**	7,574
Guarantee fees	**2,191**	1,952
Credit commitment fees	**801**	755
Others	**1,305**	1,565
Total	**77,570**	72,706
Fee and commission expense		
Bank card transaction fees	**(2,992)**	(2,204)
Inter-bank transaction fees	**(570)**	(458)
Others	**(4,570)**	(5,038)
Total	**(8,132)**	(7,700)
Net fee and commission income	**69,438**	65,006

5 Net trading gain

	Six months ended 30 June	
	2021	2020
Debt securities	**2,097**	2,840
Derivatives	**239**	330
Equity investments	**14**	(22)
Others	**520**	165
Total	**2,870**	3,313

6 Dividend income

	Six months ended 30 June	
	2021	2020
Dividend income from equity investments measured at fair value through profit or loss	**3,649**	1,491
Dividend income from equity investments measured at fair value through other comprehensive income	**8**	5
Total	**3,657**	1,496

(Expressed in millions of RMB, unless otherwise stated)

7 Net gain arising from investment securities

	Six months ended 30 June	
	2021	2020
Net gain related to financial assets designated as measured at fair value through profit or loss	**1,071**	3,269
Net loss related to financial liabilities designated as measured at fair value through profit or loss	**(5,371)**	(4,298)
Net gain related to other financial assets and liabilities measured at fair value through profit or loss	**5,307**	4,178
Net gain related to financial assets measured at fair value through other comprehensive income	**520**	257
Net revaluation gain reclassified from other comprehensive income on disposal	**330**	503
Others	**(4)**	75
Total	**1,853**	3,984

8 Net gain on derecognition of financial assets measured at amortised cost

For the six months ended 30 June 2021, a net gain on derecognition of financial assets measured at amortised cost mainly attributes to the Group's issuance of asset-backed securities, which led to RMB2,478 million net gains arising from derecognition of loans and advances to customers (for the six months ended 30 June 2020: net gains of RMB1,281 million).

9 Other operating income, net

	Six months ended 30 June	
Other operating income	**2021**	2020
Insurance related income	**27,440**	24,223
Foreign exchange gains	**4,289**	1,965
Rental income	**1,743**	1,615
Others	**6,817**	4,976
Total	**40,289**	32,779

Foreign exchange gains or losses include gains and losses in connection with the translation of foreign currency denominated monetary assets and liabilities, and net realised and unrealised gains and losses on foreign exchange derivatives (including those foreign exchange swaps, foreign exchange options and cross currency swaps entered into in order to economically hedge positions in foreign currency assets).

	Six months ended 30 June	
Other operating expense	**2021**	2020
Insurance related costs	**28,710**	24,272
Others	**7,102**	5,271
Total	**35,812**	29,543

(Expressed in millions of RMB, unless otherwise stated)

10 Operating expenses

	Six months ended 30 June	
	2021	2020
Staff costs		
– Salaries, bonuses, allowances and subsidies	**34,608**	33,102
– Housing funds	**3,378**	3,136
– Union running costs and employee education costs	**1,121**	1,246
– Defined contribution plans	**7,003**	4,329
– Early retirement expenses	**1**	9
– Compensation to employees for termination of employment relationship	**3**	–
– Others	**4,502**	3,435
	50,616	45,257
Premises and equipment expenses		
– Depreciation charges	**11,670**	11,716
– Rent and property management expenses	**1,973**	1,929
– Maintenance	**1,076**	917
– Utilities	**792**	715
– Others	**974**	937
	16,485	16,214
Taxes and surcharges	**3,538**	3,336
Amortisation expenses	**1,515**	1,354
Other general and administrative expenses	**16,006**	13,644
Total	**88,160**	79,805

11 Credit impairment losses

	Six months ended 30 June	
	2021	2020
Loans and advances to customers	**94,450**	105,534
Financial investments		
– Financial assets measured at amortised cost	**3,332**	2,688
– Financial assets measured at fair value through other comprehensive income	**(59)**	141
Off-balance sheet credit business	**742**	1,213
Others	**9,855**	1,802
Total	**108,320**	111,378

12 Other impairment losses

	Six months ended 30 June	
	2021	2020
Other impairment losses	**192**	188

13 Income tax expense

(1) Income tax expense

	Six months ended 30 June 2021	2020
Current tax	**40,842**	42,634
– The Chinese mainland	**39,905**	41,290
– Hong Kong	**470**	630
– Other countries and regions	**467**	714
Adjustments for prior years	**–**	473
Deferred tax	**(10,485)**	(13,273)
Total	**30,357**	29,834

The provisions for income taxes for the Chinese mainland and Hong Kong are calculated at 25% and 16.5% of the estimated taxable income from the Chinese mainland and Hong Kong operations for the reporting period, respectively. Taxation for other overseas operations is charged at the appropriate current rates of taxation ruling in the relevant tax jurisdictions.

(2) Reconciliation between income tax expense and accounting profit

	Note	Six months ended 30 June 2021	2020
Profit before tax		**184,463**	168,773
Income tax calculated at the 25% statutory tax rate		**46,116**	42,193
Effects of different applicable rates of tax prevailing in other countries/regions		**(104)**	(303)
Non-deductible expenses	(a)	**6,539**	6,984
Non-taxable income	(b)	**(22,194)**	(19,513)
Adjustments on income tax for prior years which affect profit or loss		**–**	473
Income tax expense		**30,357**	29,834

(a) Non-deductible expenses primarily include non-deductible losses resulting from write-off of loans, and items that are in excess of deductible amount under the relevant PRC tax regulations such as staff costs and entertainment expenses.

(b) Non-taxable income primarily includes interest income from PRC government bonds and local government bonds.

14 Earnings per share

Basic earnings per share for the six months ended 30 June 2021 and 2020 has been computed by dividing the net profit attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the periods.

For the purpose of calculating basic earnings per share, dividends on non-cumulative preference shares declared in respect of the period should be deducted from the amounts attributable to equity shareholders of the Bank. The Bank has not declared any dividend on preference shares for the six months ended 30 June 2021.

The conversion feature of preference shares is considered to be contingently issuable ordinary shares. The triggering events of conversion did not occur for the six months ended 30 June 2021 and 2020, therefore the conversion feature of preference shares has no effect on the basic and diluted earnings per share calculation.

	Six months ended 30 June 2021	2020
Net profit attributable to equity shareholders of the Bank	**153,300**	137,626
Net profit attributable to ordinary shareholders of the Bank	**153,300**	137,626
Weighted average number of ordinary shares (in millions of shares)	**250,011**	250,011
Basic earnings per share attributable to ordinary shareholders of the Bank (in RMB Yuan)	**0.61**	0.55
Diluted earnings per share attributable to ordinary shareholders of the Bank (in RMB Yuan)	**0.61**	0.55

(Expressed in millions of RMB, unless otherwise stated)

15 Cash and deposits with central banks

	Note	30 June 2021	31 December 2020
Cash		**47,210**	49,068
Deposits with central banks			
– Statutory deposit reserves	(1)	**2,330,867**	2,285,486
– Surplus deposit reserves	(2)	**343,116**	434,199
– Fiscal deposits and others		**58,200**	46,323
Accrued interest		**1,045**	1,088
Total		**2,780,438**	2,816,164

(1) The Group places statutory deposit reserves with the People's Bank of China ("PBOC") and overseas central banks where it has operations. The statutory deposit reserves are not available for use in the Group's daily business.

As at the end of the reporting period, the Bank's statutory deposit reserve rates in the Chinese mainland were as follows:

	30 June 2021	31 December 2020
Reserve rate for RMB deposits	**11.00%**	11.00%
Reserve rate for foreign currency deposits	**7.00%**	5.00%

The statutory RMB deposit reserve rates applicable to domestic subsidiaries of the Group are determined by the PBOC.

The amounts of statutory deposit reserves placed with the central banks of overseas countries are determined by local jurisdictions.

(2) The surplus deposit reserve maintained with the PBOC is mainly for the purpose of clearing.

16 Deposits with banks and non-bank financial institutions

(1) Analysed by type of counterparties

	30 June 2021	31 December 2020
Banks	**456,312**	440,339
Non-bank financial institutions	**11,014**	11,602
Accrued interest	**2,481**	1,590
Gross balances	**469,807**	453,531
Allowances for impairment losses (Note 30)	**(273)**	(298)
Net balances	**469,534**	453,233

(2) Analysed by geographical sectors

	30 June 2021	31 December 2020
The Chinese mainland	**421,618**	405,588
Overseas	**45,708**	46,353
Accrued interest	**2,481**	1,590
Gross balances	**469,807**	453,531
Allowances for impairment losses (Note 30)	**(273)**	(298)
Net balances	**469,534**	453,233

For the six months ended 30 June 2021 and for the year ended 31 December 2020, the book value of deposits with banks and non-bank financial institutions was in Stage 1. The book value and the impairment loss allowances do not involve the transfers between stages.

(Expressed in millions of RMB, unless otherwise stated)

17 Placements with banks and non-bank financial institutions

(1) Analysed by type of counterparties

	30 June 2021	31 December 2020
Banks	233,334	258,711
Non-bank financial institutions	95,634	108,478
Accrued interest	1,357	1,525
Gross balances	330,325	368,714
Allowances for impairment losses (Note 30)	(218)	(310)
Net balances	330,107	368,404

(2) Analysed by geographical sectors

	30 June 2021	31 December 2020
The Chinese mainland	233,242	291,791
Overseas	95,726	75,398
Accrued interest	1,357	1,525
Gross balances	330,325	368,714
Allowances for impairment losses (Note 30)	(218)	(310)
Net balances	330,107	368,404

For the six months ended 30 June 2021 and for the year ended 31 December 2020, the book value of placements with banks and non-bank financial institutions was in Stage 1. The book value and the impairment loss allowances do not involve the transfers between stages.

18 Derivatives and hedge accounting

(1) Analysed by type of contract

		30 June 2021			31 December 2020		
	Note	Notional amounts	Assets	Liabilities	Notional amounts	Assets	Liabilities
Interest rate contracts		688,408	1,721	2,980	650,225	1,802	4,168
Exchange rate contracts		3,143,422	43,416	39,249	3,461,021	63,881	73,376
Other contracts	(a)	158,466	7,167	1,568	126,071	3,346	4,412
Total		3,990,296	52,304	43,797	4,237,317	69,029	81,956

(Expressed in millions of RMB, unless otherwise stated)

18 Derivatives and hedge accounting (continued)

(2) Analysed by counterparty credit risk-weighted assets

	Note	30 June 2021	31 December 2020
Counterparty credit default risk-weighted assets			
– Interest rate contracts		**4,256**	4,073
– Exchange rate contracts		**39,315**	38,946
– Other contracts	(a)	**19,271**	10,015
Subtotal		**62,842**	53,034
Risk-weighted assets for credit valuation adjustment		**14,211**	14,739
Total		**77,053**	67,773

The notional amounts of derivatives only represent the unsettled transaction volumes as at the end of the reporting period, instead of the amounts of risk assets. Since 1 January 2013, the Group has adopted Capital Rules for Commercial Banks (Provisional) and other related policies. According to the rules set out by the CBIRC, the counterparty credit risk-weighted assets included risk-weighted assets for credit valuation adjustments, with the considerations of the status of counterparty and maturity characteristics, and included back-to-back client-driven transactions. The risk-weighted assets for counterparty credit risk of derivatives of the Group were calculated in accordance with the Rules on Measuring Derivatives Counterparty Default Risk Assets since 1 January 2019.

(a) Other contracts mainly consist of precious metals and commodity contracts.

(3) Hedge accounting

The following designated hedging instruments are included in the derivative financial instruments disclosed above.

	30 June 2021			31 December 2020		
	Notional amounts	**Assets**	**Liabilities**	Notional amounts	Assets	Liabilities
Fair value hedges						
Interest rate swaps	**31,588**	**77**	**(679)**	29,692	62	(1,131)
Cross currency swaps	**29**	**–**	**(2)**	30	–	(3)
Cash flow hedges						
Foreign exchange swaps	**9,640**	**46**	**(51)**	7,082	273	(82)
Cross currency swaps	**646**	**–**	**(65)**	654	–	(95)
Interest rate swaps	**6,698**	**–**	**(70)**	8,028	–	(160)
Total	**48,601**	**123**	**(867)**	45,486	335	(1,471)

(a) Fair value hedges

The Group uses interest rate swaps and cross currency swaps to hedge against changes in fair value of financial assets measured at fair value through other comprehensive income, debt securities issued, and loans and advances to customers arising from changes in interest rates and exchange rates.

Net gains/(losses) on fair value hedges are as follows:

	Six months ended 30 June	
	2021	2020
Net gains/(losses) on		
– hedging instruments	**432**	(1,099)
– hedged items	**(432)**	1,124

The gain and loss arising from the ineffective portion of fair value hedges were immaterial for the six months ended 30 June 2021 and 2020.

(Expressed in millions of RMB, unless otherwise stated)

18 Derivatives and hedge accounting (continued)

(3) Hedge accounting (continued)

(b) Cash flow hedges

The Group uses foreign exchange swaps, cross currency swaps and interest rate swaps to hedge against exposures to cash flow variability primarily from foreign exchange and interest rate risks of placements with banks and non-bank financial institutions, loans and advances to customers, placements from banks and non-bank financial institutions, deposits from customers, and debt securities issued. The maturities of hedging instruments and hedged items are both within five years.

For the six months ended 30 June 2021, the Group's net gain from the cash flow hedges of RMB245 million was recognised in other comprehensive income (for the six months ended 30 June 2020: net gain from cash flow hedges of RMB115 million) and the gain and loss arising from the ineffective portion of cash flow hedges was immaterial.

19 Financial assets held under resale agreements

Financial assets held under resale agreements analysed by underlying assets are shown as follows:

	30 June 2021	31 December 2020
Debt securities		
– Government bonds	**231,914**	200,006
– Debt securities issued by policy banks, banks and non-bank financial institutions	**395,431**	289,459
– Corporate bonds	**688**	133
Subtotal	**628,033**	489,598
Discounted bills	**77,116**	112,458
Accrued interest	**263**	350
Total	**705,412**	602,406
Allowances for impairment losses (Note 30)	**(130)**	(167)
Net balances	**705,282**	602,239

For the six months ended 30 June 2021 and for the year ended 31 December 2020, the book value of financial assets held under resale agreements was in Stage 1. The book value and the impairment loss allowances do not involve the transfers between stages.

20 Loans and advances to customers

(1) Analysed by measurement

	Note	**30 June 2021**	31 December 2020
Loans and advances to customers measured at amortised cost		**17,818,775**	16,476,817
Less: allowances for impairment losses		**(615,141)**	(556,063)
The carrying amount of loans and advances to customers measured at amortised cost	(a)	**17,203,634**	15,920,754
The carrying amount of loans and advances to customers measured at fair value through other comprehensive income	(b)	**241,305**	259,061
The carrying amount of loans and advances to customers measured at fair value through profit or loss	(c)	**4,659**	9,890
Accrued interest		**44,304**	41,664
The carrying amount of loans and advances to customers		**17,493,902**	16,231,369

(Expressed in millions of RMB, unless otherwise stated)

20 Loans and advances to customers (continued)

(1) Analysed by measurement (continued)

(a) *Loans and advances to customers measured at amortised cost*

	30 June 2021	31 December 2020
Corporate loans and advances		
– Loans	**10,060,812**	9,028,785
– Finance leases	**145,535**	136,849
	10,206,347	9,165,634
Personal loans and advances		
– Residential mortgages	**6,166,585**	5,885,022
– Personal consumer loans	**236,529**	274,635
– Personal business loans	**193,355**	138,481
– Credit cards	**842,300**	828,943
– Others	**173,659**	184,102
	7,612,428	7,311,183
Gross loans and advances to customers measured at amortised cost	**17,818,775**	16,476,817
Stage 1	**(320,230)**	(275,428)
Stage 2	**(121,046)**	(108,099)
Stage 3	**(173,865)**	(172,536)
Allowances for impairment losses (Note 30)	**(615,141)**	(556,063)
Net loans and advances to customers measured at amortised cost	**17,203,634**	15,920,754

(b) *Loans and advances to customers measured at fair value through other comprehensive income*

	30 June 2021	31 December 2020
Discounted bills	**241,305**	259,061

(c) *Loans and advances to customers measured at fair value through profit or loss*

	30 June 2021	31 December 2020
Corporate loans and advances	**4,659**	9,890

(Expressed in millions of RMB, unless otherwise stated)

20 Loans and advances to customers (continued)

(2) Analysed by assessment method of expected credit losses

	30 June 2021			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Gross loans and advances to customers measured at amortised cost	**16,975,011**	**566,783**	**276,981**	**17,818,775**
Less: allowances for impairment losses	**(320,230)**	**(121,046)**	**(173,865)**	**(615,141)**
The carrying amount of loans and advances to customers measured at amortised cost	**16,654,781**	**445,737**	**103,116**	**17,203,634**
The provision percentage for loans and advances to customers measured at amortised cost	**1.89%**	**21.36%**	**62.77%**	**3.45%**
The carrying amount of loans and advances to customers measured at fair value through other comprehensive income	**237,786**	**3,519**	**–**	**241,305**
Allowances for impairment losses on loans and advances to customers measured at fair value through other comprehensive income	**(709)**	**(130)**	**–**	**(839)**

	31 December 2020			
	Stage 1	Stage 2	Stage 3	Total
Gross loans and advances to customers measured at amortised cost	15,682,498	533,590	260,729	16,476,817
Less: allowances for impairment losses	(275,428)	(108,099)	(172,536)	(556,063)
The carrying amount of loans and advances to customers measured at amortised cost	15,407,070	425,491	88,193	15,920,754
The provision percentage for loans and advances to customers measured at amortised cost	1.76%	20.26%	66.17%	3.37%
The carrying amount of loans and advances to customers measured at fair value through other comprehensive income	255,470	3,591	–	259,061
Allowances for impairment losses on loans and advances to customers measured at fair value through other comprehensive income	(603)	(237)	–	(840)

For loans and advances to customers at Stage 1 and 2 and personal loans and advances at Stage 3, the expected credit losses ("ECL") model is used to calculate the ECL amount, while for corporate loans and advances and discounted bills at Stage 3, the discounted cash flow model is used.

The segmentation of the loans mentioned above is defined in Note 56(1).

(3) Movements of allowances for impairment losses

		Six months ended 30 June 2021			
	Note	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
As at 1 January 2021		**275,428**	**108,099**	**172,536**	**556,063**
Transfers:					
Transfers in/(out) to Stage 1		**5,482**	**(5,023)**	**(459)**	**–**
Transfers in/(out) to Stage 2		**(6,929)**	**8,421**	**(1,492)**	**–**
Transfers in/(out) to Stage 3		**(1,152)**	**(14,793)**	**15,945**	**–**
Newly originated or purchased financial assets		**97,899**	**–**	**–**	**97,899**
Transfer out/repayment	(a)	**(62,111)**	**(10,910)**	**(18,828)**	**(91,849)**
Remeasurements	(b)	**11,613**	**35,252**	**29,728**	**76,593**
Write-off		**–**	**–**	**(30,146)**	**(30,146)**
Recoveries of loans and advances written off		**–**	**–**	**6,581**	**6,581**
As at 30 June 2021		**320,230**	**121,046**	**173,865**	**615,141**

(Expressed in millions of RMB, unless otherwise stated)

20 Loans and advances to customers (continued)

(3) Movements of allowances for impairment losses (continued)

	Note	2020 Stage 1	Stage 2	Stage 3	Total
As at 1 January 2020		240,027	92,880	149,251	482,158
Transfers:					
Transfers in/(out) to Stage 1		4,187	(3,944)	(243)	–
Transfers in/(out) to Stage 2		(10,992)	11,901	(909)	–
Transfers in/(out) to Stage 3		(3,804)	(27,823)	31,627	–
Newly originated or purchased financial assets		141,273	–	–	141,273
Transfer out/repayment	(a)	(94,802)	(15,131)	(45,863)	(155,796)
Remeasurements	(b)	(461)	50,216	85,229	134,984
Write-off		–	–	(57,383)	(57,383)
Recoveries of loans and advances written off		–	–	10,827	10,827
As at 31 December 2020		275,428	108,099	172,536	556,063

(a) Transfer out/repayment refers to transfer of creditor's rights, securitisation of assets, debt-to-equity swaps and reversal of loss provision due to repayment of debt in the form of other assets, as well as repayment of the loans.

(b) Remeasurements comprise the impact of changes in Probability of Default ("PD"), Loss Given Default ("LGD") or Exposure at Default ("EAD"); changes in model assumptions and methodologies; credit loss changes due to stage-transfer; unwinding of discount; and the impact of exchange rate changes, etc.

The allowances for impairment losses disclosed above are for loans and advances to customers measured at amortised cost.

(4) Overdue loans analysed by overdue period

	30 June 2021 Overdue within three months	Overdue between three months and one year	Overdue between one year and three years	Overdue over three years	Total
Unsecured loans	**17,223**	**16,681**	**10,897**	**2,506**	**47,307**
Guaranteed loans	**8,868**	**23,564**	**25,737**	**7,743**	**65,912**
Loans secured by property and other immovable assets	**29,197**	**21,373**	**20,047**	**4,313**	**74,930**
Other pledged loans	**1,856**	**2,566**	**1,940**	**489**	**6,851**
Total	**57,144**	**64,184**	**58,621**	**15,051**	**195,000**
As a percentage of gross loans and advances to customers	**0.32%**	**0.36%**	**0.32%**	**0.08%**	**1.08%**

	31 December 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	15,572	20,264	6,769	684	43,289
Guaranteed loans	12,862	18,439	29,069	2,300	62,670
Loans secured by property and other immovable assets	25,531	20,083	19,350	4,400	69,364
Other pledged loans	334	1,679	4,700	187	6,900
Total	54,299	60,465	59,888	7,571	182,223
As a percentage of gross loans and advances to customers	0.32%	0.36%	0.36%	0.05%	1.09%

Overdue loans represent loans of which the whole or part of the principal or interest is overdue for 1 day or more.

(Expressed in millions of RMB, unless otherwise stated)

20 Loans and advances to customers (continued)

(5) Packaged disposal of non-performing loans

For the six months ended 30 June 2021, the Group's total amount of non-performing loans sold through packaged disposal to external asset management companies was RMB3,227 million (for the six months ended 30 June 2020: RMB10,624 million).

(6) Write-off

According to the Group's write-off policy, it is required to continue to recover the bad debts that are written off. For the six months ended 30 June 2021, the amount of loans and advances to customers that the Group has written off under litigation-related condition but still under enforcement is RMB9,552 million (for the six month ended 30 June 2020: RMB13,793 million).

21 Financial investments

(1) Analysed by measurement

	Note	30 June 2021	31 December 2020
Financial assets measured at fair value through profit or loss	(a)	**575,380**	577,952
Financial assets measured at amortised cost	(b)	**4,696,655**	4,505,243
Financial assets measured at fair value through other comprehensive income	(c)	**1,956,288**	1,867,458
Total		**7,228,323**	6,950,653

(a) Financial assets measured at fair value through profit or loss

Analysed by nature

	Note	30 June 2021	31 December 2020
Held-for-trading purposes			
– Debt securities	(i)	**164,880**	170,365
– Equity instruments and funds	(ii)	**1,370**	1,415
		166,250	171,780
Financial assets designated as measured at fair value through profit or loss			
– Other debt instruments	(iii)	**31,757**	61,180
Others			
– Credit investments	(iv)	**17,035**	14,202
– Debt securities	(v)	**120,024**	115,571
– Funds and others	(vi)	**240,314**	215,219
		377,373	344,992
Total		**575,380**	577,952

(Expressed in millions of RMB, unless otherwise stated)

21 Financial investments (continued)

(1) Analysed by measurement (continued)

(a) *Financial assets measured at fair value through profit or loss (continued)*

Analysed by type of issuers

Held-for-trading purposes

(i) Debt securities

	30 June 2021	31 December 2020
Government	**10,896**	20,173
Policy banks	**35,677**	51,723
Banks and non-bank financial institutions	**48,689**	33,769
Enterprises	**69,618**	64,700
Total	**164,880**	170,365
Listed (Note)	**164,780**	170,365
– of which in Hong Kong	**751**	712
Unlisted	**100**	–
Total	**164,880**	170,365

Note: Debt securities traded on the China Interbank Bond Market are classified as "Listed".

(ii) Equity instruments and funds

	30 June 2021	31 December 2020
Banks and non-bank financial institutions	**906**	681
Enterprises	**464**	734
Total	**1,370**	1,415
Listed	**465**	1,385
– of which in Hong Kong	**379**	629
Unlisted	**905**	30
Total	**1,370**	1,415

Financial assets designated as measured at fair value through profit or loss

(iii) Other debt instruments

	30 June 2021	31 December 2020
Banks and non-bank financial institutions	**23,970**	32,150
Enterprises	**7,787**	29,030
Total	**31,757**	61,180

Other debt instruments were mainly the deposits with banks and non-bank financial institutions, debt securities and credit assets invested by principal guaranteed wealth management products (Note 23(2)).

The amounts of changes in the fair value of these financial assets that are attributable to changes in credit risk are considered not significant during the period and the year presented and cumulatively as at 30 June 2021 and 31 December 2020.

(Expressed in millions of RMB, unless otherwise stated)

21 Financial investments (continued)

(1) Analysed by measurement (continued)

(a) *Financial assets measured at fair value through profit or loss (continued)*

Analysed by type of issuers (continued)

Others

(iv) *Credit investments*

	30 June 2021	31 December 2020
Banks and non-bank financial institutions	**1,180**	663
Enterprises	**15,855**	13,539
Total	**17,035**	14,202
Listed	**–**	643
– of which in Hong Kong	**–**	198
Unlisted	**17,035**	13,559
Total	**17,035**	14,202

(v) *Debt securities*

	30 June 2021	31 December 2020
Policy banks	**7,525**	7,361
Banks and non-bank financial institutions	**111,953**	108,185
Enterprises	**546**	25
Total	**120,024**	115,571
Listed (Note)	**119,713**	115,325
– of which in Hong Kong	**388**	–
Unlisted	**311**	246
Total	**120,024**	115,571

Note: Debt securities traded on the China Interbank Bond Market are classified as “Listed”.

(vi) *Funds and others*

	30 June 2021	31 December 2020
Banks and non-bank financial institutions	**107,220**	86,628
Enterprises	**133,094**	128,591
Total	**240,314**	215,219
Listed	**41,366**	74,164
– of which in Hong Kong	**1,724**	1,086
Unlisted	**198,948**	141,055
Total	**240,314**	215,219

There was no significant limitation on the ability of the Group to dispose of financial assets measured at fair value through profit or loss.

(Expressed in millions of RMB, unless otherwise stated)

21 Financial investments (continued)

(1) Analysed by measurement (continued)

(b) Financial assets measured at amortised cost

Analysed by type of issuers

	30 June 2021	31 December 2020
Government	4,006,988	3,799,421
Central banks	1,838	5,231
Policy banks	281,281	300,679
Banks and non-bank financial institutions	138,335	130,946
Enterprises	178,183	177,534
Special government bond	49,200	49,200
Subtotal	4,655,825	4,463,011
Accrued interest	63,607	62,470
Gross balances	4,719,432	4,525,481
Allowances for impairment losses		
– Stage 1	(14,415)	(13,211)
– Stage 2	(182)	(282)
– Stage 3	(8,180)	(6,745)
Subtotal	(22,777)	(20,238)
Net balances	4,696,655	4,505,243
Listed (Note)	4,559,740	4,341,559
– of which in Hong Kong	6,986	7,747
Unlisted	136,915	163,684
Total	4,696,655	4,505,243
Market value of listed bonds	4,612,344	4,371,059

Note: Debt securities traded on the China Interbank Bond Market are classified as "Listed".

(Expressed in millions of RMB, unless otherwise stated)

21 Financial investments (continued)

(1) Analysed by measurement (continued)

(c) *Financial assets measured at fair value through other comprehensive income*

Analysed by nature

	Note	30 June 2021	31 December 2020
Debt securities	(i)	**1,948,571**	1,860,503
Equity instruments	(ii)	**7,717**	6,955
Total		**1,956,288**	1,867,458

Analysed by type of issuers

(i) *Debt securities*

	30 June 2021	31 December 2020
Government	**1,199,145**	1,159,963
Central banks	**28,406**	34,295
Policy banks	**421,793**	400,032
Banks and non-bank financial institutions	**124,056**	88,887
Enterprises	**124,023**	130,324
Accumulated changes of fair value charged in other comprehensive income	**23,366**	21,231
Subtotal	**1,920,789**	1,834,732
Accrued interest	**27,782**	25,771
Total	**1,948,571**	1,860,503
Listed (Note)	**1,886,798**	1,785,650
– of which in Hong Kong	**59,618**	57,198
Unlisted	**61,773**	74,853
Total	**1,948,571**	1,860,503

Note: Debt securities traded on the China Interbank Bond Market are classified as “Listed”.

(ii) *Equity instruments*

	30 June 2021		31 December 2020	
	Fair value	Dividend income	Fair value	Dividend income
Equity instruments	**7,717**	**8**	6,955	16

For the six months ended 30 June 2021 and for the year ended 31 December 2020, the Group neither sold any of the investments above nor transferred any cumulative profit or loss in the equity.

(Expressed in millions of RMB, unless otherwise stated)

21 Financial investments (continued)

(2) Movements of allowances for impairment losses

(a) Financial assets measured at amortised cost

	Note	Six months ended 30 June 2021 Stage 1	Stage 2	Stage 3	Total
As at 1 January 2021		**13,211**	**282**	**6,745**	**20,238**
Transfers:					
Transfers in/(out) to Stage 1		**–**	**–**	**–**	**–**
Transfers in/(out) to Stage 2		**(9)**	**9**	**–**	**–**
Transfers in/(out) to Stage 3		**–**	**(116)**	**116**	**–**
Newly originated or purchased financial assets		**1,965**	**–**	**851**	**2,816**
Financial assets derecognised during the period		**(654)**	**(47)**	**(153)**	**(854)**
Remeasurements	(i)	**(80)**	**56**	**1,394**	**1,370**
Foreign exchange and other movements		**(18)**	**(2)**	**(773)**	**(793)**
As at 30 June 2021		**14,415**	**182**	**8,180**	**22,777**

	Note	2020 Stage 1	Stage 2	Stage 3	Total
As at 1 January 2020		8,932	134	3,636	12,702
Transfers:					
Transfers in/(out) to Stage 1		–	–	–	–
Transfers in/(out) to Stage 2		(3)	3	–	–
Transfers in/(out) to Stage 3		(38)	(14)	52	–
Newly originated or purchased financial assets		4,703	–	–	4,703
Financial assets derecognised during the year		(1,493)	(48)	(33)	(1,574)
Remeasurements	(i)	1,182	219	3,389	4,790
Foreign exchange and other movements		(72)	(12)	(299)	(383)
As at 31 December 2020		13,211	282	6,745	20,238

(b) Financial assets measured at fair value through other comprehensive income

	Note	Six months ended 30 June 2021 Stage 1	Stage 2	Stage 3	Total
As at 1 January 2021		**3,334**	**11**	**–**	**3,345**
Transfers:					
Transfers in/(out) to Stage 1		**–**	**–**	**–**	**–**
Transfers in/(out) to Stage 2		**–**	**–**	**–**	**–**
Transfers in/(out) to Stage 3		**–**	**–**	**–**	**–**
Newly originated or purchased financial assets		**444**	**–**	**–**	**444**
Financial assets derecognised during the period		**(458)**	**–**	**–**	**(458)**
Remeasurements	(i)	**(41)**	**(4)**	**–**	**(45)**
Foreign exchange and other movements		**(2)**	**–**	**–**	**(2)**
As at 30 June 2021		**3,277**	**7**	**–**	**3,284**

(Expressed in millions of RMB, unless otherwise stated)

21 Financial investments (continued)

(2) Movements of allowances for impairment losses (continued)

(b) Financial assets measured at fair value through other comprehensive income (continued)

		2020			
	Note	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2020		3,580	–	–	3,580
Transfers:					
Transfers in/(out) to Stage 1		–	–	–	–
Transfers in/(out) to Stage 2		(6)	6	–	–
Transfers in/(out) to Stage 3		–	–	–	–
Newly originated or purchased financial assets		1,490	–	–	1,490
Financial assets derecognised during the year		(1,896)	–	–	(1,896)
Remeasurements	(i)	157	5	–	162
Foreign exchange and other movements		9	–	–	9
As at 31 December 2020		3,334	11	–	3,345

(i) Remeasurements mainly comprise the impact of changes in PD, LGD, EAD and credit loss changes due to stage-transfer.

As at 30 June 2021, the Group's financial assets measured at amortised cost with carrying amount of RMB11,002 million (as at 31 December 2020: RMB10,420 million) were impaired and classified as Stage 3, financial assets measured at amortised cost with carrying amount of RMB1,698 million (as at 31 December 2020: RMB2,047 million) and financial assets measured at fair value through other comprehensive income with carrying amount of RMB1,506 million(as at 31 December 2020: RMB1,528 million) were classified as Stage 2, and the remaining financial assets measured at amortised cost and financial assets measured at fair value through other comprehensive income were classified as Stage 1.

For the six months ended 30 June 2021, the increase in the Group's Stage 1 financial assets due to newly originated or purchased financial assets amounted to RMB730,656 million(for the year ended 31 December 2020: RMB1,786,779 million), the decrease in Stage 1 financial assets due to derecognition amounted to RMB444,559 million (for the year ended 31 December 2020: RMB925,069 million), and there were no significant changes in the balances of financial assets classified as Stage 2 and 3. Both the amounts of financial assets transferred between stages and the amounts of financial assets with modifications of contractual cash flows that did not result in a derecognition were not significant.

(Expressed in millions of RMB, unless otherwise stated)

22 Long-term equity investments

(1) Investments in subsidiaries

(a) Investment balance

	Note	30 June 2021	31 December 2020
CCB Financial Asset Investment Co., Ltd. ("CCB Investment")	(i)	**27,000**	12,000
CCB Wealth Management Co., Ltd. ("CCB Wealth Management")		**15,000**	15,000
CCB Financial Leasing Co., Ltd. ("CCB Financial Leasing")		**11,163**	11,163
CCB Brazil Financial Holding – Investimentos e Participações Ltda.		**9,542**	9,542
CCB Trust Co., Ltd. ("CCB Trust")		**7,429**	7,429
CCB Life Insurance Co., Ltd. ("CCB Life")		**6,962**	6,962
China Construction Bank (Europe) S.A. ("CCB Europe")		**4,406**	4,406
China Construction Bank (London) Limited ("CCB London")		**2,861**	2,861
PT Bank China Construction Bank Indonesia Tbk ("CCB Indonesia")		**2,215**	2,215
CCB Pension Management Co., Ltd. ("CCB Pension")		**1,955**	1,955
Sino-German Bausparkasse Co., Ltd. ("Sino-German Bausparkasse")		**1,502**	1,502
China Construction Bank (Malaysia) Berhad ("CCB Malaysia")		**1,334**	1,334
China Construction Bank (New Zealand) Limited ("CCB New Zealand")		**976**	976
China Construction Bank (Russia) Limited ("CCB Russia")		**851**	851
Golden Fountain Finance Limited ("Golden Fountain")		**676**	676
CCB Principal Asset Management Co., Ltd. ("CCB Principal Asset Management")		**130**	130
CCB International Group Holdings Limited ("CCBIG")		**–**	–
Subtotal		**94,002**	79,002
Less: Allowance for impairment losses		**(8,110)**	(8,110)
Total		**85,892**	70,892

(i) In January 2021, the Bank increased capital of CCB Investment by RMB15,000 million with its own funds. CCB Investment has remained a wholly-owned subsidiary of the Bank.

(b) Except for CCB Indonesia, the major subsidiaries of the Group are unlisted enterprises, details of the investments in subsidiaries are as follows:

Name of company	Principal place of business	Particulars of issued and paid-up capital	Kind of legal entity	Principal activities	% of ownership directly held by the Bank	% of ownership indirectly held by the Bank	% of voting rights held by the Bank	Method of investment
CCB Investment	Beijing, the PRC	RMB27,000 million	Company with Limited Liability	Investment	100%	–	100%	Establishment
CCB Wealth Management	Shenzhen, the PRC	RMB15,000 million	Company with Limited Liability	Wealth Management	100%	–	100%	Establishment
CCB Financial Leasing	Beijing, the PRC	RMB11,000 million	Company with Limited Liability	Financial Leasing	100%	–	100%	Establishment
CCB Brazil Financial Holding – Investimentos e Participações Ltda.	Sao Paulo, Brasil	R$4,281 million	Company with Limited Liability	Investment	99.99%	0.01%	100%	Acquisition
CCB Trust	Anhui, the PRC	RMB10,500 million	Company with Limited Liability	Trust business	67%	–	67%	Acquisition
CCB Life	Shanghai, the PRC	RMB7,120 million	Company Limited by Shares	Insurance	51%	–	51%	Acquisition
CCB Europe	Luxembourg	EUR550 million	Company with Limited Liability	Commercial Banking	100%	–	100%	Establishment
CCB London	London, United Kingdom	US$200 million RMB1,500 million	Company with Limited Liability	Commercial Banking	100%	–	100%	Establishment
CCB Indonesia	Jakarta, Indonesia	IDR3,791,973 million	Company Limited by Shares	Commercial Banking	60%	–	60%	Acquisition

(Expressed in millions of RMB, unless otherwise stated)

22 Long-term equity investments (continued)

(1) Investments in subsidiaries (continued)

(b) Except for CCB Indonesia, the major subsidiaries of the Group are unlisted enterprises, details of the investments in subsidiaries are as follows: (continued)

Name of company	Principal place of business	Particulars of issued and paid-up capital	Kind of legal entity	Principal activities	% of ownership directly held by the Bank	% of ownership indirectly held by the Bank	% of voting rights held by the Bank	Method of investment
CCB Pension	Beijing, the PRC	RMB2,300 million	Company with Limited Liability	Pension Management	85%	–	85%	Establishment
Sino-German Bausparkasse	Tianjin, the PRC	RMB2,000 million	Company with Limited Liability	House savings	75.10%	–	75.10%	Establishment
CCB Malaysia	Kuala Lumpur, Malaysia	MYR823 million	Company with Limited Liability	Commercial Banking	100%	–	100%	Establishment
CCB New Zealand	Auckland, New Zealand	NZD199 million	Company with Limited Liability	Commercial Banking	100%	–	100%	Establishment
CCB Russia	Moscow, Russia	RUB4,200 million	Company with Limited Liability	Commercial Banking	100%	–	100%	Establishment
Golden Fountain	British Virgin Islands	US$50,000	Company with Limited Liability	Investment	100%	–	100%	Acquisition
CCB Principal Asset Management	Beijing, the PRC	RMB200 million	Company with Limited Liability	Fund management services	65%	–	65%	Establishment
CCBIG	Hong Kong, the PRC	HK$1	Company with Limited Liability	Investment	100%	–	100%	Establishment
CCB International (Holdings) Limited ("CCB International")	Hong Kong, the PRC	US$601 million	Company with Limited Liability	Investment	–	100%	100%	Acquisition
China Construction Bank (Asia) Corporation Limited ("CCB Asia")	Hong Kong, the PRC	HK$6,511 million RMB17,600 million	Company Limited by Shares	Commercial Banking	–	100%	100%	Acquisition
China Construction Bank (Brasil) Banco Múltiplo S/A. ("CCB Brasil")	Sao Paulo, Brasil	R$2,957 million	Company Limited by Shares	Commercial Banking	–	100%	100%	Acquisition

(c) As at 30 June 2021, the amount of the non-controlling interests of the subsidiaries was immaterial to the Group.

(Expressed in millions of RMB, unless otherwise stated)

22 Long-term equity investments (continued)

(2) Interests in associates and joint ventures

(a) The movements of the Group's interests in associates and joint ventures are as follows:

	Note	Six months ended 30 June 2021	2020
As at 1 January		**13,702**	11,353
Increase in capital during the period/year	(i)	**1,440**	4,995
Decrease in capital during the period/year		**(483)**	(3,214)
Share of profits		**228**	895
Cash dividend receivable		**(75)**	(162)
Effect of exchange difference and others		**(57)**	(165)
As at 30 June/31 December		**14,755**	13,702

(i) In April 2021, the Bank intended to contribute RMB8,000 million to the National Green Development Fund Co., Ltd. upon approval by the CBIRC; In May 2021, the Bank completed the first phase of investment of RMB800 million.

(b) Details of the interests in major associates and joint ventures are as follows:

Name of Company	Principal place of business	Particulars of issued and paid-up capital	Principal activities	% of ownership held	% of voting held	Total assets at period end	Total liabilities at period end	Revenue for the period	Net profit for the period
Guoxin Jianxin Equity Investment Fund (Chengdu) Partnership (Limited Partnership)	Chengdu, the PRC	RMB6,173 million	Equity investment	50.00%	50.00%	6,462	–	9	(33)
CCB Gold Investment Infrastructure Equity Investment Fund (Tianjin) Partnership (Limited Partnership)	Tianjin, the PRC	RMB3,500 million	Equity investment	48.57%	40.00%	3,822	–	103	103
Diamond String Limited	Hong Kong, the PRC	HK$10,000	Property investment	50.00%	50.00%	1,566	1,516	112	55
Maotai CCBT Private Equity Fund (Limited Partnership)	Guiyang, the PRC	RMB900 million	Investment management and consultancy	38.11%	40.00%	1,474	–	7	1
Shaanxi Yanchang Petroleum Finance Limited	Xi'an, the PRC	RMB3,500 million	Settlement, loans and financial leasing	8.00%	20.00%	23,266	18,038	254	114

(Expressed in millions of RMB, unless otherwise stated)

23 Structured entities

(1) Unconsolidated structured entities

Unconsolidated structured entities of the Group include trust plans, asset management plans, funds, asset-backed securities and wealth management products held for investment purposes and non-principal guaranteed wealth management products, trust plans and funds, etc., which are issued or established by the Group for providing wealth management services to customers and earning management fees, commission and custodian fees in return.

As at 30 June 2021 and 31 December 2020, the assets recognised for the Group's interests in the unconsolidated structured entities above included related investment and management fee, commission and custodian fee receivables accrued. The related carrying amounts presented in the line items in the consolidated statement of financial position and the maximum exposure were as follows:

	30 June 2021	31 December 2020
Financial investments		
Financial assets measured at fair value through profit or loss	**105,078**	93,206
Financial assets measured at amortised cost	**34,166**	41,407
Financial assets measured at fair value through other comprehensive income	**589**	703
Long-term equity investments	**9,513**	9,028
Other assets	**3,534**	2,840
Total	**152,880**	147,184

For the six months ended 30 June 2021 and 2020, the income from these unconsolidated structured entities held by the Group presented in the line items in the consolidated statement of comprehensive income was as follows:

	Six months ended 30 June	
	2021	2020
Interest income	**885**	1,741
Fee and commission income	**9,242**	8,285
Net trading gain	**549**	204
Dividend income	**303**	355
Net gain arising from investment securities	**2,395**	1,869
Share of profits of associates and joint ventures	**77**	159
Total	**13,451**	12,613

As at 30 June 2021, the balance of the non-principal guaranteed wealth management products set up by the Group amounted to RMB1,821,065 million (as at 31 December 2020: RMB2,167,886 million) and the balance of trust plans, funds and asset management plans issued or established by the Group amounted to RMB3,114,289 million (as at 31 December 2020: RMB3,068,334 million). For the six months ended 30 June 2021, the Group also entered into a small number of resale agreements with above-mentioned non-principal guaranteed wealth management products. These resale agreement transactions were conducted in accordance with market price or general commercial terms and conditions, and the gains or losses from such transactions had no significant impact on the Group.

(2) Consolidated structured entities

The consolidated structured entities of the Group are primarily the principal guaranteed wealth management products (Note 21(1)(a)(iii)) and certain asset management plans and trust plans.

(Expressed in millions of RMB, unless otherwise stated)

24 Fixed assets

	Bank premises	Construction in progress	Equipment	Aircraft and vessels	Others	Total
Cost/Deemed cost						
As at 1 January 2021	**141,234**	**17,242**	**52,750**	**34,698**	**46,834**	**292,758**
Additions	**604**	**879**	**1,794**	**–**	**694**	**3,971**
Transfer in/(out)	**422**	**(3,609)**	**2,084**	**–**	**1,103**	**–**
Other movements	**(431)**	**(308)**	**(2,328)**	**(682)**	**(2,147)**	**(5,896)**
As at 30 June 2021	**141,829**	**14,204**	**54,300**	**34,016**	**46,484**	**290,833**
Accumulated depreciation						
As at 1 January 2021	**(47,755)**	**–**	**(35,927)**	**(5,872)**	**(30,207)**	**(119,761)**
Charge for the period	**(2,380)**	**–**	**(3,072)**	**(752)**	**(2,380)**	**(8,584)**
Other movements	**93**	**–**	**2,195**	**59**	**1,855**	**4,202**
As at 30 June 2021	**(50,042)**	**–**	**(36,804)**	**(6,565)**	**(30,732)**	**(124,143)**
Allowances for impairment losses (Note 30)						
As at 1 January 2021	**(392)**	**(1)**	**–**	**(96)**	**(3)**	**(492)**
Charge for the period	**–**	**–**	**–**	**(60)**	**–**	**(60)**
Other movements	**–**	**–**	**–**	**–**	**–**	**–**
As at 30 June 2021	**(392)**	**(1)**	**–**	**(156)**	**(3)**	**(552)**
Net carrying value						
As at 1 January 2021	**93,087**	**17,241**	**16,823**	**28,730**	**16,624**	**172,505**
As at 30 June 2021	**91,395**	**14,203**	**17,496**	**27,295**	**15,749**	**166,138**

	Bank premises	Construction in progress	Equipment	Aircraft and vessels	Others	Total
Cost/Deemed cost						
As at 1 January 2020	137,641	16,726	57,893	30,810	48,141	291,211
Additions	2,299	5,993	5,636	5,604	3,425	22,957
Transfer in/(out)	2,749	(5,281)	48	–	2,484	–
Other movements	(1,455)	(196)	(10,827)	(1,716)	(7,216)	(21,410)
As at 31 December 2020	141,234	17,242	52,750	34,698	46,834	292,758
Accumulated depreciation						
As at 1 January 2020	(43,405)	–	(40,035)	(4,525)	(32,085)	(120,050)
Charge for the year	(4,676)	–	(6,444)	(1,654)	(4,578)	(17,352)
Other movements	326	–	10,552	307	6,456	17,641
As at 31 December 2020	(47,755)	–	(35,927)	(5,872)	(30,207)	(119,761)
Allowances for impairment losses (Note 30)						
As at 1 January 2020	(393)	(1)	–	(24)	(3)	(421)
Charge for the year	–	–	–	(79)	–	(79)
Other movements	1	–	–	7	–	8
As at 31 December 2020	(392)	(1)	–	(96)	(3)	(492)
Net carrying value						
As at 1 January 2020	93,843	16,725	17,858	26,261	16,053	170,740
As at 31 December 2020	93,087	17,241	16,823	28,730	16,624	172,505

Notes:

(1) Other movements include disposals, retirements and exchange differences of fixed assets.

(2) As at 30 June 2021, the ownership documentation for the Group's bank premises with a net carrying value of RMB11,001 million (as at 31 December 2020: RMB12,002 million) was being finalised. However, management is of the view that the aforesaid matter would not affect the rights of the Group to these assets nor have any significant impact on the business operation of the Group.

(Expressed in millions of RMB, unless otherwise stated)

25 Land use rights

	Six months ended 30 June 2021	2020
Cost/Deemed cost		
As at 1 January	**22,652**	22,793
Additions	**–**	2
Disposals	**(50)**	(143)
As at 30 June/31 December	**22,602**	22,652
Amortisation		
As at 1 January	**(8,399)**	(7,919)
Charge for the period/year	**(260)**	(524)
Disposals	**10**	44
As at 30 June/31 December	**(8,649)**	(8,399)
Allowances for impairment losses (Note 30)		
As at 1 January	**(135)**	(136)
Disposals	**–**	1
As at 30 June/31 December	**(135)**	(135)
Net carrying value		
As at 1 January	**14,118**	14,738
As at 30 June/31 December	**13,818**	14,118

The Group's right-of-use assets include the above fully prepaid land use rights and other right-of-use assets disclosed in Note 29(2).

26 Intangible assets

	Software	Others	Total
Cost/Deemed cost			
As at 1 January 2021	**13,494**	**1,475**	**14,969**
Additions	**1,055**	**46**	**1,101**
Disposals	**(49)**	**(461)**	**(510)**
As at 30 June 2021	**14,500**	**1,060**	**15,560**
Amortisation			
As at 1 January 2021	**(9,100)**	**(581)**	**(9,681)**
Charge for the period	**(927)**	**(66)**	**(993)**
Disposals	**47**	**176**	**223**
As at 30 June 2021	**(9,980)**	**(471)**	**(10,451)**
Allowances for impairment losses (Note 30)			
As at 1 January 2021	**–**	**(9)**	**(9)**
Additions	**–**	**–**	**–**
Disposals	**–**	**–**	**–**
As at 30 June 2021	**–**	**(9)**	**(9)**
Net carrying value			
As at 1 January 2021	**4,394**	**885**	**5,279**
As at 30 June 2021	**4,520**	**580**	**5,100**

(Expressed in millions of RMB, unless otherwise stated)

26 Intangible assets (continued)

	Software	Others	Total
Cost/Deemed cost			
As at 1 January 2020	11,698	1,423	13,121
Additions	2,075	131	2,206
Disposals	(279)	(79)	(358)
As at 31 December 2020	13,494	1,475	14,969
Amortisation			
As at 1 January 2020	(8,071)	(541)	(8,612)
Charge for the year	(1,277)	(77)	(1,354)
Disposals	248	37	285
As at 31 December 2020	(9,100)	(581)	(9,681)
Allowances for impairment losses (Note 30)			
As at 1 January 2020	–	(7)	(7)
Additions	–	(2)	(2)
Disposals	–	–	–
As at 31 December 2020	–	(9)	(9)
Net carrying value			
As at 1 January 2020	3,627	875	4,502
As at 31 December 2020	4,394	885	5,279

27 Goodwill

(1) The goodwill is mainly attributable to the expected synergies arising from the acquisition of CCB Asia, CCB Brasil and CCB Indonesia. The movements of the goodwill are as follows:

	Six months ended 30 June 2021	2020
As at 1 January	**2,587**	2,809
Effect of exchange difference	**(42)**	(222)
As at 30 June/31 December	**2,545**	2,587
Less: Allowances for impairment losses (Note 30)	**(377)**	(377)
As at 30 June/31 December	**2,168**	2,210

(2) Impairment test for cash-generating unit ("CGU") containing goodwill

The Group calculated the recoverable amounts of CGUs (including goodwill) in accordance with accounting policies. The Group estimated present values of future cash flows of CGUs using expected future cash flow projections based on financial forecasts approved by management. The average growth rates used by the Group were consistent with the forecasts in industry reports, while the discount rates reflected specific risks relating to relevant segments. The Group estimated net amounts of fair value less costs of disposal based on net assets within the CGUs.

As at 30 June 2021, the Group's goodwill impairment provision amounted to RMB377 million (as at 31 December 2020: RMB377 million), mainly due to goodwill impairment of CCB Brasil CGU.

(Expressed in millions of RMB, unless otherwise stated)

28 Deferred tax

	30 June 2021	31 December 2020
Deferred tax assets	**102,518**	92,950
Deferred tax liabilities	**(1,401)**	(1,551)
Total	**101,117**	91,399

(1) Analysed by nature

	30 June 2021		31 December 2020	
	Deductible/ (taxable) temporary differences	Deferred tax assets/ (liabilities)	Deductible/ (taxable) temporary differences	Deferred tax assets/ (liabilities)
Deferred tax assets				
– Fair value adjustments	**(32,773)**	**(8,200)**	(19,059)	(4,700)
– Allowances for impairment losses	**463,551**	**115,690**	406,810	101,782
– Employee benefits	**12,278**	**3,031**	15,331	3,801
– Others	**(34,177)**	**(8,003)**	(32,582)	(7,933)
Total	**408,879**	**102,518**	370,500	92,950
Deferred tax liabilities				
– Fair value adjustments	**(5,813)**	**(1,295)**	(5,910)	(1,283)
– Others	**(745)**	**(106)**	(1,469)	(268)
Total	**(6,558)**	**(1,401)**	(7,379)	(1,551)

(2) Movements of deferred tax

	Fair value adjustments	Allowances for impairment losses	Employee benefits	Others	Total
As at 1 January 2021	**(5,983)**	**101,782**	**3,801**	**(8,201)**	**91,399**
Recognised in profit or loss	**(2,745)**	**13,908**	**(770)**	**92**	**10,485**
Recognised in other comprehensive income	**(767)**	**–**	**–**	**–**	**(767)**
As at 30 June 2021	**(9,495)**	**115,690**	**3,031**	**(8,109)**	**101,117**
As at 1 January 2020	(9,503)	82,330	4,348	(5,318)	71,857
Recognised in profit or loss	192	19,452	(547)	(2,883)	16,214
Recognised in other comprehensive income	3,328	–	–	–	3,328
As at 31 December 2020	(5,983)	101,782	3,801	(8,201)	91,399

The Group did not have significant unrecognised deferred tax as at the end of the reporting period.

(Expressed in millions of RMB, unless otherwise stated)

29 Other assets

	Note	30 June 2021	31 December 2020
Repossessed assets	(1)		
– Buildings		**1,392**	1,458
– Land use rights		**115**	115
– Others		**359**	421
		1,866	1,994
Clearing and settlement accounts		**89,149**	23,004
Right-of-use assets	(2)	**25,986**	25,982
Fee and commission receivables		**24,235**	22,405
Policyholder account assets and accounts receivable of insurance business		**12,099**	10,435
Leasehold improvements		**2,529**	2,632
Deferred expenses		**1,506**	1,299
Others		**184,242**	156,412
Gross balance		**341,612**	244,163
Allowances for impairment losses (Note 30)			
– Repossessed assets		**(1,138)**	(1,197)
– Others		**(4,515)**	(4,238)
Net balance		**335,959**	238,728

(1) For the six months ended 30 June 2021, the original cost of repossessed assets disposed of by the Group amounted to RMB125 million (for the six months ended 30 June 2020: RMB428 million). The Group intends to dispose of repossessed assets through various methods including auction, competitive bidding and transfer.

(2) Right-of-use assets

	Bank premises	Others	Total
Cost			
As at 1 January 2021	**38,685**	**80**	**38,765**
Additions	**4,218**	**11**	**4,229**
Other movements	**(1,434)**	**(5)**	**(1,439)**
As at 30 June 2021	**41,469**	**86**	**41,555**
Accumulated depreciation			
As at 1 January 2021	**(12,745)**	**(38)**	**(12,783)**
Charge for the period	**(3,818)**	**(10)**	**(3,828)**
Other movements	**1,038**	**4**	**1,042**
As at 30 June 2021	**(15,525)**	**(44)**	**(15,569)**
Net carrying value			
As at 1 January 2021	**25,940**	**42**	**25,982**
As at 30 June 2021	**25,944**	**42**	**25,986**

	Bank premises	Others	Total
Cost			
As at 1 January 2020	30,610	104	30,714
Additions	10,617	14	10,631
Other movements	(2,542)	(38)	(2,580)
As at 31 December 2020	38,685	80	38,765
Accumulated depreciation			
As at 1 January 2020	(6,221)	(33)	(6,254)
Charge for the period	(7,669)	(26)	(7,695)
Other movements	1,145	21	1,166
As at 31 December 2020	(12,745)	(38)	(12,783)
Net carrying value			
As at 1 January 2020	24,389	71	24,460
As at 31 December 2020	25,940	42	25,982

The Group's right-of-use assets include the above assets and land use rights disclosed in Note 25.

(Expressed in millions of RMB, unless otherwise stated)

30 Movements of allowances for impairment losses

	Note	Six months ended 30 June 2021				
		As at 1 January	**(Reversal)/ charge for the period**	**Transfer (out)/in**	**Write-off and others**	**As at 30 June**
Deposits with banks and non-bank financial institutions	16	**298**	**(25)**	**–**	**–**	**273**
Precious metals		**9**	**3**	**–**	**–**	**12**
Placements with banks and non-bank financial institutions	17	**310**	**(101)**	**–**	**9**	**218**
Financial assets held under resale agreements	19	**167**	**(36)**	**(1)**	**–**	**130**
Loans and advances to customers	20	**556,063**	**94,451**	**(5,227)**	**(30,146)**	**615,141**
Financial assets measured at amortised cost	21(2)(a)	**20,238**	**3,332**	**(793)**	**–**	**22,777**
Fixed assets	24	**492**	**60**	**–**	**–**	**552**
Land use rights	25	**135**	**–**	**–**	**–**	**135**
Intangible assets	26	**9**	**–**	**–**	**–**	**9**
Goodwill	27	**377**	**–**	**–**	**–**	**377**
Other assets	29	**5,435**	**1,375**	**–**	**(1,157)**	**5,653**
Total		**583,533**	**99,059**	**(6,021)**	**(31,294)**	**645,277**

	Note	2020				
		As at 1 January	Charge/ (reversal) for the year	Transfer (out)/in	Write-off and others	As at 31 December
Deposits with banks and non-bank financial institutions	16	218	80	–	–	298
Precious metals		38	(29)	–	–	9
Placements with banks and non-bank financial institutions	17	225	86	(1)	–	310
Financial assets held under resale agreements	19	63	104	–	–	167
Loans and advances to customers	20	482,158	167,448	(36,160)	(57,383)	556,063
Financial assets measured at amortised cost	21(2)(a)	12,702	7,919	(383)	–	20,238
Fixed assets	24	421	79	–	(8)	492
Land use rights	25	136	–	–	(1)	135
Intangible assets	26	7	2	–	–	9
Goodwill	27	–	377	–	–	377
Other assets	29	4,793	3,016	–	(2,374)	5,435
Total		500,761	179,082	(36,544)	(59,766)	583,533

Transfer (out)/in includes exchange differences.

31 Borrowings from central banks

	30 June 2021	31 December 2020
The Chinese mainland	**708,375**	740,904
Overseas	**43,424**	31,815
Accrued interest	**14,114**	8,451
Total	**765,913**	781,170

(Expressed in millions of RMB, unless otherwise stated)

32 Deposits from banks and non-bank financial institutions

(1) Analysed by type of counterparties

	30 June 2021	31 December 2020
Banks	245,352	248,404
Non-bank financial institutions	1,524,211	1,689,533
Accrued interest	8,709	5,697
Total	1,778,272	1,943,634

(2) Analysed by geographical sectors

	30 June 2021	31 December 2020
The Chinese mainland	1,621,117	1,797,413
Overseas	148,446	140,524
Accrued interest	8,709	5,697
Total	1,778,272	1,943,634

33 Placements from banks and non-bank financial institutions

(1) Analysed by type of counterparties

	30 June 2021	31 December 2020
Banks	330,538	331,259
Non-bank financial institutions	35,135	17,103
Accrued interest	1,265	1,276
Total	366,938	349,638

(2) Analysed by geographical sectors

	30 June 2021	31 December 2020
The Chinese mainland	204,909	171,124
Overseas	160,764	177,238
Accrued interest	1,265	1,276
Total	366,938	349,638

(Expressed in millions of RMB, unless otherwise stated)

34 Financial liabilities measured at fair value through profit or loss

	30 June 2021	31 December 2020
Principal guaranteed wealth management products	**28,330**	56,961
Financial liabilities related to precious metals	**29,100**	31,453
Structured financial instruments	**234,971**	165,665
Total	**292,401**	254,079

The Group's financial liabilities measured at fair value through profit or loss are those designated as measured at fair value through profit or loss. As at the end of the reporting period, the difference between the fair value of these financial liabilities and the contractual payables at maturity is not material. The amounts of changes in the fair value of these financial liabilities that are attributable to changes in credit risk are considered not significant during the period and the year presented and cumulatively as at 30 June 2021 and 31 December 2020.

35 Financial assets sold under repurchase agreements

Financial assets sold under repurchase agreements analysed by underlying assets are shown as follows:

	30 June 2021	31 December 2020
Debt securities		
– Government bonds	**99,091**	42,111
– Debt securities issued by policy banks, banks and non-bank financial institutions	**12,189**	10,488
– Corporate bonds	**1,900**	1,478
Subtotal	**113,180**	54,077
Discounted bills	**1,275**	1,408
Others	**1,186**	1,198
Accrued interest	**27**	42
Total	**115,668**	56,725

(Expressed in millions of RMB, unless otherwise stated)

36 Deposits from customers

	30 June 2021	31 December 2020
Demand deposits		
– Corporate customers	**6,770,328**	6,354,893
– Personal customers	**4,915,232**	4,716,452
Subtotal	**11,685,560**	11,071,345
Time deposits (including call deposits)		
– Corporate customers	**3,868,486**	3,596,898
– Personal customers	**6,450,333**	5,670,385
Subtotal	**10,318,819**	9,267,283
Accrued interest	**313,590**	276,348
Total	**22,317,969**	20,614,976

Deposits from customers include:

		30 June 2021	31 December 2020
(1)	Pledged deposits		
	– Deposits for acceptance	**76,128**	63,427
	– Deposits for guarantee	**41,184**	42,540
	– Deposits for letter of credit	**18,849**	17,760
	– Others	**234,899**	190,387
	Total	**371,060**	314,114
(2)	Outward remittance and remittance payables	**15,259**	17,542

(Expressed in millions of RMB, unless otherwise stated)

37 Accrued staff costs

	Note	Six months ended 30 June 2021 As at 1 January	Increased	Decreased	As at 30 June
Salaries, bonuses, allowances and subsidies		**23,230**	**34,608**	**(38,161)**	**19,677**
Housing funds		**251**	**3,378**	**(3,391)**	**238**
Union running costs and employee education costs		**5,764**	**1,121**	**(902)**	**5,983**
Post-employment benefits	(1)	**596**	**7,003**	**(7,171)**	**428**
Early retirement benefits		**1,005**	**7**	**(51)**	**961**
Compensation to employees for termination of employment relationship		**–**	**3**	**(3)**	**–**
Others	(2)	**4,614**	**4,502**	**(5,016)**	**4,100**
Total		**35,460**	**50,622**	**(54,695)**	**31,387**

	Note	2020 As at 1 January	Increased	Decreased	As at 31 December
Salaries, bonuses, allowances and subsidies		24,025	71,356	(72,151)	23,230
Housing funds		355	6,809	(6,913)	251
Union running costs and employee education costs		4,983	2,624	(1,843)	5,764
Post-employment benefits	(1)	3,970	12,261	(15,635)	596
Early retirement benefits		1,396	32	(423)	1,005
Compensation to employees for termination of employment relationship		2	5	(7)	–
Others	(2)	4,344	11,281	(11,011)	4,614
Total		39,075	104,368	(107,983)	35,460

The Group had no overdue balance of accrued staff costs as at the end of the reporting period.

(1) Post-employment benefits

(a) Defined contribution plans

	Six months ended 30 June 2021 As at 1 January	Increased	Decreased	As at 30 June
Basic pension insurance	**529**	**4,236**	**(4,116)**	**649**
Unemployment insurance	**49**	**157**	**(157)**	**49**
Annuity contribution	**874**	**2,610**	**(2,763)**	**721**
Total	**1,452**	**7,003**	**(7,036)**	**1,419**

	2020 As at 1 January	Increased	Decreased	As at 31 December
Basic pension insurance	608	6,551	(6,630)	529
Unemployment insurance	42	225	(218)	49
Annuity contribution	3,683	5,485	(8,294)	874
Total	4,333	12,261	(15,142)	1,452

(Expressed in millions of RMB, unless otherwise stated)

37 Accrued staff costs (continued)

(1) Post-employment benefits (continued)

(b) Defined benefit plans – Supplementary retirement benefits

The Group's obligations in respect of the supplementary retirement benefits as at the end of the reporting period were calculated using the projected unit credit method and reviewed by an external independent actuary, Towers Watson Management Consulting (Shenzhen) Co., Ltd.

	Present value of defined benefit plan obligations		Fair value of plan assets		Net assets of defined benefit plans	
	Six months ended 30 June 2021	2020	**Six months ended 30 June 2021**	2020	**Six months ended 30 June 2021**	2020
As at 1 January	**5,266**	5,776	**6,122**	6,139	**(856)**	(363)
Cost of the net defined benefit liability in profit or loss						
– *Interest costs*	**81**	169	**95**	183	**(14)**	(14)
Remeasurements of the defined benefit liability in other comprehensive income						
– *Actuarial gains*	**(30)**	(105)	**–**	–	**(30)**	(105)
– *Returns on plan assets*	**–**	–	**91**	374	**(91)**	(374)
Other changes						
– *Benefits paid*	**(260)**	(574)	**(260)**	(574)	**–**	–
As at 30 June/31 December	**5,057**	5,266	**6,048**	6,122	**(991)**	(856)

Interest cost was recognised in operating expenses.

(i) Principal actuarial assumptions of the Group as at the end of the reporting period were as follows:

	30 June 2021	31 December 2020
Discount rate	**3.25%**	3.25%
Health care cost increase rate	**7.00%**	7.00%
Average expected future lifetime of eligible employees	**11.2 years**	11.4 years

Mortality assumptions are based on China Life Insurance Mortality Table (2010-2013). The Table published historical statistics in China.

(Expressed in millions of RMB, unless otherwise stated)

37 Accrued staff costs (continued)

(1) Post-employment benefits (continued)

(b) Defined benefit plans – Supplementary retirement benefits (continued)

(ii) The sensitivity of the present value of supplementary retirement benefit obligations to changes in the weighted principal assumption is:

	Impact on present value of supplementary retirement benefit obligations	
	Increase in assumption by 0.25%	Decrease in assumption by 0.25%
Discount rate	(97)	100
Health care cost increase rate	39	(38)

(iii) As at 30 June 2021, the weighted average duration of supplementary retirement benefit obligations of the Group was 7.8 years (as at 31 December 2020: 7.9 years).

(iv) Plan assets of the Group are as follows:

	30 June 2021	31 December 2020
Cash and cash equivalents	**992**	315
Equity instruments	**988**	1,007
Debt instruments and others	**4,068**	4,800
Total	**6,048**	6,122

(2) Accrued staff costs – others mainly include employee welfare, medical insurance, maternity insurance and employment injury insurance.

38 Taxes payable

	30 June 2021	31 December 2020
Income tax	**38,898**	72,174
Value added tax	**10,557**	9,701
Others	**1,659**	2,286
Total	**51,114**	84,161

(Expressed in millions of RMB, unless otherwise stated)

39 Provisions

	Note	30 June 2021	31 December 2020
Expected credit losses from off-balance sheet credit business	(1)	**32,569**	31,833
Expected losses from other businesses	(2)	**31,160**	22,281
Total		**63,729**	54,114

(1) Movements of the provision – expected credit losses on off-balance sheet business

	Note	Six months ended 30 June 2021			
		Stage 1	**Stage 2**	**Stage 3**	**Total**
As at 1 January 2021		**26,480**	**4,009**	**1,344**	**31,833**
Transfers:					
Transfers in/(out) to Stage 1		**61**	**(61)**	**–**	**–**
Transfers in/(out) to Stage 2		**(74)**	**203**	**(129)**	**–**
Transfers in/(out) to Stage 3		**(4)**	**(66)**	**70**	**–**
Newly originated		**13,771**	**–**	**–**	**13,771**
Matured		**(11,778)**	**(2,479)**	**(427)**	**(14,684)**
Remeasurements	(a)	**(316)**	**1,856**	**109**	**1,649**
As at 30 June 2021		**28,140**	**3,462**	**967**	**32,569**

	Note	2020			
		Stage 1	Stage 2	Stage 3	Total
As at 1 January 2020		24,773	4,401	6,305	35,479
Transfers:					
Transfers in/(out) to Stage 1		13	(13)	–	–
Transfers in/(out) to Stage 2		(236)	248	(12)	–
Transfers in/(out) to Stage 3		(10)	(46)	56	–
Newly originated		20,706	–	–	20,706
Matured		(15,227)	(3,586)	(5,865)	(24,678)
Remeasurements	(a)	(3,539)	3,005	860	326
As at 31 December 2020		26,480	4,009	1,344	31,833

(a) Remeasurements comprise the impact of changes in PD, LGD or EAD; changes in model assumptions and methodologies; credit loss changes due to stage-transfer; and the impact of exchange rate changes.

(2) Other businesses include off-balance sheet businesses other than off-balance sheet credit business, outstanding litigations and precious metals leasing business.

(Expressed in millions of RMB, unless otherwise stated)

40 Debt securities issued

	Note	30 June 2021	31 December 2020
Certificates of deposit issued	(1)	**512,844**	537,050
Bonds issued	(2)	**154,585**	125,871
Subordinated bonds issued	(3)	**85,998**	79,986
Eligible Tier 2 capital bonds issued	(4)	**192,756**	193,049
Accrued interest		**10,978**	4,241
Total		**957,161**	940,197

(1) Certificates of deposit issued were mainly issued by the head office, overseas branches, CCB International, CCB Europe and CCB New Zealand.

(2) Bonds issued

Issue date	Maturity date	Interest rate per annum	Issue place	Currency	30 June 2021	31 December 2020
05/09/2014	05/09/2021	4.00%	Taiwan	RMB	**600**	600
18/11/2014	18/11/2021	3.95%	Taiwan	RMB	**1,000**	1,000
18/11/2014	18/11/2024	4.08%	Taiwan	RMB	**600**	600
30/03/2016	30/03/2021	4.08%	The Chinese mainland	RMB	**–**	3,500
31/05/2016	31/05/2021	2.75%	Hong Kong	USD	**–**	1,951
21/10/2016	21/10/2021	2.25%	Hong Kong	USD	**4,521**	4,579
09/11/2016	09/11/2021	3.05%	The Chinese mainland	RMB	**800**	800
13/06/2017	13/06/2022	2.75%	Hong Kong	USD	**3,876**	3,925
25/10/2017	25/10/2022	3.15%	Hong Kong	USD	**646**	654
09/11/2017	09/11/2022	3.93%	Auckland	NZD	**676**	708
04/12/2017	04/12/2022	3.00%	Hong Kong	USD	**2,584**	2,616
13/03/2018	13/03/2021	3.20%	Auckland	NZD	**–**	47
17/04/2018	26/03/2021	3M LIBOR +0.75%	Hong Kong	USD	**–**	523
18/04/2018	18/04/2021	4.88%	The Chinese mainland	RMB	**–**	6,000
30/04/2018	30/04/2021	3M LIBOR +0.75%	Hong Kong	USD	**–**	131
04/05/2018	04/05/2021	3M LIBOR +0.80%	Hong Kong	USD	**–**	164
08/06/2018	08/06/2021	3M LIBOR +0.73%	Hong Kong	USD	**–**	5,887
08/06/2018	08/06/2023	3M LIBOR +0.83%	Hong Kong	USD	**3,876**	3,925
19/06/2018	19/06/2023	4.01%	Auckland	NZD	**451**	472
12/07/2018	12/07/2023	3M LIBOR +1.25%	Hong Kong	USD	**2,584**	2,616
20/07/2018	20/07/2021	4.48%	The Chinese mainland	RMB	**3,000**	3,000
21/08/2018	19/06/2023	4.005%	Auckland	NZD	**158**	165
23/08/2018	23/08/2021	4.25%	The Chinese mainland	RMB	**2,500**	2,500
24/09/2018	24/09/2021	3M LIBOR +0.75%	Hong Kong	USD	**6,459**	6,541
24/09/2018	24/09/2021	3M EURIBOR +0.60%	Luxembourg	EUR	**3,839**	4,022
20/12/2018	20/12/2021	3M LIBOR +0.75%	Auckland	USD	**644**	654
16/05/2019	16/05/2024	3.50%	Hong Kong	USD	**2,587**	2,603
16/05/2019	16/05/2029	3.88%	Hong Kong	USD	**1,292**	1,308
26/06/2019	24/06/2022	0.21%	Japan	JPY	**1,169**	1,268
26/08/2019	26/08/2022	3.30%	The Chinese mainland	RMB	**6,300**	6,300
26/08/2019	26/08/2024	3.40%	The Chinese mainland	RMB	**3,000**	3,000
11/09/2019	16/05/2024	3.50%	Hong Kong	USD	**1,938**	1,962
12/09/2019	12/08/2022	3M LIBOR +0.68%	Auckland	USD	**644**	654
22/10/2019	22/10/2022	0.05%	Luxembourg	EUR	**3,839**	4,022
24/10/2019	24/10/2024	3M LIBOR +0.77%	Hong Kong	USD	**4,327**	4,383
22/11/2019	22/11/2024	2.393%	Auckland	NZD	**383**	401
10/12/2019	10/11/2022	3-month New Zealand benchmark interest rate +0.88%	Auckland	NZD	**406**	425
20/12/2019	20/06/2022	3M LIBOR +0.63%	Luxembourg	USD	**1,940**	1,967
16/03/2020	15/03/2023	2.68%	The Chinese mainland	RMB	**6,000**	6,000
16/03/2020	15/03/2025	2.75%	The Chinese mainland	RMB	**5,000**	5,000
19/03/2020	19/03/2022	2.95%	Hong Kong	RMB	**802**	802
21/07/2020	21/07/2025	1.99%	Hong Kong	USD	**2,920**	2,950
25/09/2020	25/09/2023	0.954%	Auckland	NZD	**676**	708
28/09/2020	28/09/2025	1.78%	Hong Kong	USD	**1,292**	1,308
28/09/2020	28/09/2030	2.55%	Hong Kong	USD	**646**	654
27/10/2020	29/10/2023	3.50%	The Chinese mainland	RMB	**20,000**	20,000
03/11/2020	05/11/2023	3.70%	The Chinese mainland	RMB	**2,600**	2,600
26/01/2021	26/01/2024	3.30%	The Chinese mainland	RMB	**20,000**	–
02/02/2021	04/02/2024	3.65%	The Chinese mainland	RMB	**2,240**	–
07/04/2021	12/04/2024	3.55%	The Chinese mainland	RMB	**2,200**	–
22/04/2021	22/04/2023	2.85%	Singapore	RMB	**1,997**	–
22/04/2021	22/04/2024	0.043%	Luxembourg	EUR	**6,143**	–
22/04/2021	22/04/2024	0.86%	Hong Kong	USD	**3,876**	–
22/04/2021	22/04/2026	1.46%	Hong Kong	USD	**3,553**	–
27/05/2021	01/06/2024	3.33%	The Chinese mainland	RMB	**1,950**	–
28/06/2021	28/06/2024	0.06%	Luxembourg	EUR	**6,143**	–
Total nominal value					**154,677**	125,895
Less: unamortised issuance costs					**(92)**	(24)
Carrying value as at period/year end					**154,585**	125,871

(Expressed in millions of RMB, unless otherwise stated)

40 Debt securities issued (continued)

(3) Subordinated bonds issued

The carrying value of the Group's subordinated bonds issued upon the approval of the PBOC and the CBIRC is as follows:

Issue date	Maturity date	Interest rate per annum	Currency	Note	30 June 2021	31 December 2020
03/11/2011	07/11/2026	5.70%	RMB	(a)	**40,000**	40,000
20/11/2012	22/11/2027	4.99%	RMB	(b)	**40,000**	40,000
28/01/2021	01/02/2031	4.30%	RMB	(c)	**6,000**	–
Total nominal value					**86,000**	80,000
Less: unamortised issuance cost					**(2)**	(14)
Carrying value as at period/year end					**85,998**	79,986

(a) The Group has an option to redeem the bonds on 7 November 2021, subject to approval from the relevant authority.

(b) The Group has an option to redeem the bonds on 22 November 2022, subject to approval from the relevant authority.

(c) The Group has an option to redeem the part or all of the bonds on 1 February 2026, subject to registration from the PBOC and the CBIRC.

(4) Eligible Tier 2 capital bonds issued

Issue date	Maturity date	Interest rate per annum	Currency	Note	30 June 2021	31 December 2020
18/08/2014	18/08/2029	5.98%	RMB	(a)	**20,000**	20,000
25/09/2018	25/09/2028	4.86%	RMB	(b)	**43,000**	43,000
29/10/2018	29/10/2028	4.70%	RMB	(c)	**40,000**	40,000
27/02/2019	27/02/2029	4.25%	USD	(d)	**11,949**	12,100
24/06/2020	24/06/2030	2.45%	USD	(e)	**12,918**	13,081
10/09/2020	14/09/2030	4.20%	RMB	(f)	**65,000**	65,000
Total nominal value					**192,867**	193,181
Less: unamortised issuance cost					**(111)**	(132)
Carrying value as at period/year end					**192,756**	193,049

(a) The Group has an option to redeem the bonds on 18 August 2024, subject to approval from the relevant authority. These eligible Tier 2 capital bonds have the write-down feature of a Tier 2 capital instrument, which allows the Bank to write down the entire principal of the bonds when a regulatory triggering event occurs. Any accumulated unpaid interest will not be paid either.

(b) The Group has an option to redeem the bonds on 25 September 2023, subject to approval from the relevant authority. These eligible Tier 2 capital bonds have the write-down feature of a Tier 2 capital instrument, which allows the Bank to write down the entire principal of the bonds when a regulatory triggering event occurs. Any accumulated unpaid interest will not be paid either.

(c) The Group has an option to redeem the bonds on 29 October 2023, subject to approval from the relevant authority. These eligible Tier 2 capital bonds have the write-down feature of a Tier 2 capital instrument, which allows the Bank to write down the entire principal of the bonds when a regulatory triggering event occurs. Any accumulated unpaid interest will not be paid either.

(d) The Group has an option to redeem the bonds on 27 February 2024, subject to approval from the relevant authority. If the Group does not exercise the option to redeem, then, from 27 February 2024 onward, the interest rate will be reset. The coupon rate will be equal to 5-year US treasury bond benchmark interest rate as at the interest reset date plus 1.88%. These eligible Tier 2 capital bonds have the write-down feature of a Tier 2 capital instrument, which allows the Bank to write down the entire principal of the bonds when a regulatory triggering event occurs. Any accumulated unpaid interest will not be paid either.

(e) The Group has an option to redeem the bonds on 24 June 2025, subject to approval from the relevant authority. If they are not redeemed by the Group, the interest rate will be reset on 24 June 2025 and increase by 2.15% on the basis of five-year USD treasury benchmark applicable on the interest reset date.These eligible Tier 2 capital bonds have the write-down feature of a Tier 2 capital instrument, which allows the Bank to write down the entire principal of the bonds when a regulatory triggering event occurs. Any accumulated unpaid interest will not be paid either.

(f) The Group has an option to redeem the bonds on 14 September 2025, subject to an approval from relevant authority. These eligible Tier 2 capital bonds have the write-down feature of a Tier 2 capital instrument, which allows the Bank to write down the entire principal of the bonds when a regulatory triggering event occurs. Any accumulated unpaid interest will not be paid either.

(Expressed in millions of RMB, unless otherwise stated)

41 Other liabilities

	Note	30 June 2021	31 December 2020
Insurance related liabilities		**194,714**	172,327
Dividend Payable		**81,509**	–
Clearing and settlement accounts		**19,839**	93,031
Payment and collection clearance accounts		**34,174**	47,169
Lease liabilities	(1)	**23,522**	23,591
Deferred income		**18,106**	17,894
Cash pledged and rental income received in advance		**10,063**	8,850
Dormant accounts		**8,045**	7,195
Capital expenditure payable		**6,104**	9,673
Accrued expenses		**5,591**	5,225
Others		**183,430**	160,285
Total		**585,097**	545,240

(1) Lease liabilities

Maturity analysis – undiscounted analysis

	30 June 2021	31 December 2020
Within one year	**7,387**	7,037
Between one year and five years	**12,070**	13,975
More than five years	**7,994**	7,031
Total undiscounted lease liabilities	**27,451**	28,043
Lease liabilities	**23,522**	23,591

42 Share capital

	30 June 2021	31 December 2020
Listed in Hong Kong (H shares)	**240,417**	240,417
Listed in the Chinese mainland (A shares)	**9,594**	9,594
Total	**250,011**	250,011

All H and A shares are ordinary shares, have a par value of RMB1 per share and rank pari passu with the same rights and benefits.

(Expressed in millions of RMB, unless otherwise stated)

43 Other equity instruments

(1) Preference shares

(a) *Preference shares outstanding as at the end of the reporting period*

Financial instrument outstanding	Issue date	Classification	Initial interest rate	Issue price	Quantity (million shares)	Total amount: Currency	Total amount: Original currency	Total amount: (RMB)	Maturity date	Redemption/ conversion conditions
2017 Domestic Preference Shares	21 December 2017	Equity instruments	4.75%	RMB100 per share	600	RMB	60,000	60,000	No maturity date	None
Less: Issue fee								(23)		
Carrying amount								59,977		

(b) *The key terms*

Dividend

The nominal dividend rate of the Domestic Preference Shares is adjusted on a phase-by-phase basis. It is the sum of the benchmark rate plus the fixed interest spread, and is adjusted every five years. The fixed interest spread is determined as the nominal dividend rate set for issuance less the benchmark rate at the time of issuance, and will not be subject to future adjustments. The dividends for domestic preference shares are non-cumulative. The Bank has the right to cancel dividend distribution on Domestic Preference Shares, and the cancellation does not constitute a default event. The Bank may, at its discretion, use the cancelled dividends to repay other indebtedness due and payable. If the Bank cancels all or part of the dividends on the Domestic Preference Shares, the Bank shall make no profit distribution to shareholders holding ordinary shares from the day after the cancellation proposal is adopted by the General Shareholders' Meeting to the day when full distribution of dividends is resumed. The cancellation of dividends on Domestic Preference Shares will not constitute other restrictions to the Bank except for the distribution of dividends to ordinary shareholders.

The dividends on the Domestic Preference Shares are distributed annually.

Redemption

The Bank may, subject to CBIRC approval and compliance with the Redemption Preconditions, redeem in whole or in part of the Domestic Preference Shares after at least five years from the completion date of the issuance (i.e., 27 December 2017). The redemption period begins from the first day of the redemption and ends on the day when all Domestic Preference Shares are redeemed or converted. The redemption price of the Domestic Preference Shares shall be their issue price plus any dividends accrued but unpaid in the current period.

Compulsory conversion of preference shares

If an Additional Tier 1 Capital Instrument Trigger Event occurs, i.e., the Core Tier 1 Capital Adequacy Ratio of the Bank has fallen to 5.125% or below, the Bank has the right to, without prior consent from the shareholders of the Domestic Preference Shares and as agreed, convert all or part of the Domestic Preference Shares issued and outstanding to ordinary A shares, to restore the Bank's Core Tier 1 Capital Adequacy Ratio to above the trigger point (i.e., 5.125%). In the case of partial conversion, the Domestic Preference Shares shall be subject to the same proportion and conditions of conversion. Once Domestic Preference Shares are converted to ordinary A shares, they shall not be converted back to preference shares under any circumstances.

When a Tier 2 Capital Instrument Trigger Event occurs, the Bank has the right to, without prior consent of the shareholders of the Domestic Preference Shares and as agreed, convert all the Domestic Preference Shares issued and outstanding to ordinary A shares. Once Domestic Preference Shares are converted to ordinary A shares, they shall not be converted back to preference shares under any circumstances. A Tier 2 Capital Instrument Trigger Event is the earlier of the following two scenarios: (1) the CBIRC having decided that without a conversion or write-off of the Bank's capital, the Bank would become non-viable; and (2) the relevant authorities having decided that a public sector injection of capital or equivalent support is necessary, without which the Bank would become non-viable. When the compulsory conversion of preference shares occurs, the Bank shall report to the CBIRC for approval and decision, and perform the announcement obligation according to the regulations of the Securities Law and CSRC.

The Bank classifies preference shares issued as an equity instrument and presented as an equity item on the statement of financial position. Capital raised from the issuance of the above preference shares, after deduction of the expenses relating to the issuance, was wholly used to replenish the Bank's additional tier 1 capital and to increase its capital adequacy ratio.

(Expressed in millions of RMB, unless otherwise stated)

43 Other equity instruments (continued)

(1) Preference shares (continued)

(c) Changes in preference shares outstanding

	1 January 2021		Increase/(Decrease)		30 June 2021	
Financial instrument outstanding	Amount (million shares)	Carrying value	Amount (million shares)	Carrying value	Amount (million shares)	Carrying value
2017 Domestic Preference Shares	600	59,977	–	–	**600**	**59,977**
Total	600	59,977	–	–	**600**	**59,977**

(2) Perpetual bonds

(a) Perpetual bonds outstanding at the end of the reporting period

Financial instrument outstanding	Issue date	Classification	Initial interest rate	Issue price	Quantity (million pieces)	Currency	Total amount	Maturity date	Redemption/ write-down conditions
Undated Additional Tier 1 Capital Bonds	13 November 2019	Equity instruments	4.22%	100 per unit	400	RMB	40,000	No maturity date	None
Less: Issue fee							(9)		
Carrying amount							39,991		

(b) The key terms

Distribution rate and distribution payment

The distribution rate of the Undated Additional Tier 1 Capital Bonds (or "the Bonds") will be adjusted at defined intervals, with a distribution rate adjustment period every 5 years since the payment settlement date. In any distribution rate adjusted period, the distribution payments on the Bonds will be made at a prescribed fixed distribution rate. The distribution rate is determined by a benchmark rate plus a fixed spread.

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 holders of the Bonds. The Bank may, at its sole discretion, use the proceeds from the cancelled distributions to meet other obligations as they fall due. In the case of cancelling any distributions on the Bonds, no matter in whole or in part, the Bank shall not make any distribution to the ordinary shareholders from the next day following the resolution being approved by the general shareholders meeting, until its decision to resume the distribution payments in whole to the holders of the Bonds. The distributions on the Bonds are non-cumulative, namely, upon cancellation, any amount of distribution unpaid to the holders of the Bonds in the applicable period will not accumulate or compound to the subsequent distribution period thereafter.

The distributions of the Bonds will be payable annually.

Conditional redemption rights of the Bank

From the fifth anniversary since the issuance of the Bonds, the Bank may redeem whole or part of the Bonds on each distribution payment date (including the fifth distribution payment date since the issuance). If, after the issuance, the 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 Bonds.

The exercise of the Bank's redemption right shall be subject to the consent of the CBIRC and the satisfaction of the following preconditions: (i)the Bank shall use capital instruments of the same or better quality to replace the instruments to be redeemed, and such replacement shall only be carried out at conditions which are sustainable for the income capacity; (ii)or the capital position of the Bank after the redemption right is exercised will remain well above the regulatory capital requirements stipulated by the CBIRC.

(Expressed in millions of RMB, unless otherwise stated)

43 Other equity instruments (continued)

(2) Perpetual bonds (continued)

(b) *The key terms (continued)*

Write-down/write-off clauses

Upon the occurrence of an 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 CBIRC but without the need for the consent of the holders of the Bonds, to write down whole or part of the aggregate amount of the 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 Bonds then issued and outstanding shall be written down on a pro rata basis, according to the outstanding amount, with all other Additional Tier 1 Capital instruments with equivalent write-down clauses of the Bank.

Upon the occurrence of a Tier 2 Capital Trigger Event, the Bank has the right to write off in whole, without the need for the consent of the holders of the Bonds, the aggregate amount of the Bonds then issued and outstanding. A Tier 2 Capital Trigger Event refers to the earlier of the following events: (i)the CBIRC having decided that the Bank would become non-viable without a write-off; (ii)any relevant authority having decided that a public sector injection of capital or equivalent support is necessary, without which the Bank would become non-viable. Upon write-off of the bonds, such bonds are to be permanently cancelled and will not be restored under any circumstances.

Subordination

The claims in respect of the Bonds will be subordinated to the claims of depositors, general creditors, and subordinated indebtedness that ranks senior to the Bonds; will rank in priority to all classes of shares held by the Bank's shareholders and rank pari passu with the claims in respect of any other additional tier 1 capital instruments of the Bank that rank pari passu with the Bonds.

The Bank classifies the Bonds issued as an equity instrument and presented as an equity item on the statement of financial position. Capital raised from the issuance of the Bonds, after deduction of the expenses relating to the issuance, was wholly used to replenish the Bank's additional tier 1 capital and to increase its capital adequacy ratios.

(c) *Changes in perpetual bonds outstanding*

Financial instrument outstanding	1 January 2021 Amount (million pieces)	1 January 2021 Carrying value	Increase/(Decrease) Amount (million pieces)	Increase/(Decrease) Carrying value	30 June 2021 Amount (million pieces)	30 June 2021 Carrying value
Undated Additional Tier 1 Capital Bonds	400	39,991	–	–	**400**	**39,991**
Total	400	39,991	–	–	**400**	**39,991**

(3) Interests attributable to the holders of equity instruments

Items	**30 June 2021**	31 December 2020
1. Total equity attributable to equity holders of the Bank	**2,436,972**	2,364,808
(1) Equity attributable to ordinary equity holders of the Bank	**2,337,004**	2,264,840
(2) Equity attributable to other equity holders of the Bank	**99,968**	99,968
Of which: net profit	**–**	5,624
dividends received	**–**	5,624
2. Total equity attributable to non-controlling interests	**25,369**	24,545
(1) Equity attributable to non-controlling interests of ordinary shares	**21,916**	21,092
(2) Equity attributable to non-controlling interests of other equity instruments	**3,453**	3,453

44 Capital reserve

	30 June 2021	31 December 2020
Share premium	**134,924**	134,263

(Expressed in millions of RMB, unless otherwise stated)

45 Other comprehensive income

		Other comprehensive income of the statement of financial position			Other comprehensive income of the statement of comprehensive income				
					Six months ended 30 June 2021				
		1 January 2021	Net-of-tax amount attributable to equity shareholders of the Bank	30 June 2021	The amount before income taxes	Less: Reclassification adjustments included in profit or loss due to disposals	Less: Income taxes	Net-of-tax amount attributable to equity shareholders of the Bank	Net-of-tax amount attributable to non-controlling interests
(1)	Other comprehensive income that will not be reclassified to profit or loss								
	Remeasurements of post-employment benefit obligations	272	121	**393**	121	–	–	121	–
	Fair value changes of equity instruments designated as measured at fair value through other comprehensive income	764	(139)	**625**	(186)	–	47	(139)	–
	Others	604	4	**608**	4	–	–	4	–
(2)	Other comprehensive income that may be reclassified subsequently to profit or loss								
	Fair value changes of debt instruments measured at fair value through other comprehensive income	16,372	2,338	**18,710**	3,538	(330)	(829)	2,338	41
	Allowances for credit losses of debt instruments measured at fair value through other comprehensive income	3,139	(47)	**3,092**	(62)	–	15	(47)	–
	Net (loss)/gain on cash flow hedges	(300)	245	**(55)**	245	–	–	245	–
	Exchange difference on translating foreign operations	(5,803)	(2,815)	**(8,618)**	(2,819)	–	–	(2,815)	(4)
Total		15,048	(293)	**14,755**	841	(330)	(767)	(293)	37

		Other comprehensive income of the statement of financial position			Other comprehensive income of the statement of comprehensive income				
					2020				
		1 January 2020	Net-of-tax amount attributable to equity shareholders of the Bank	31 December 2020	The amount before income taxes	Less: Reclassification adjustments included in profit or loss due to disposals	Less: Income taxes	Net-of-tax amount attributable to equity shareholders of the Bank	Net-of-tax amount attributable to non-controlling interests
(1)	Other comprehensive income that will not be reclassified to profit or loss								
	Remeasurements of post-employment benefit obligations	(207)	479	272	479	–	–	479	–
	Fair value changes of equity instruments designated as measured at fair value through other comprehensive income	1,043	(279)	764	(372)	–	93	(279)	–
	Others	580	24	604	24	–	–	24	–
(2)	Other comprehensive income that may be reclassified subsequently to profit or loss								
	Fair value changes of debt instruments measured at fair value through other comprehensive income	25,974	(9,602)	16,372	(11,924)	(655)	2,980	(9,602)	3
	Allowances for credit losses of debt instruments measured at fair value through other comprehensive income	3,901	(762)	3,139	(1,017)	–	255	(762)	–
	Net loss on cash flow hedges	(239)	(61)	(300)	(61)	–	–	(61)	–
	Exchange difference on translating foreign operations	934	(6,737)	(5,803)	(6,720)	–	–	(6,737)	17
Total		31,986	(16,938)	15,048	(19,591)	(655)	3,328	(16,938)	20

(Expressed in millions of RMB, unless otherwise stated)

46 Surplus reserve

Surplus reserves consist of statutory surplus reserve fund and discretionary surplus reserve fund.

The Bank is required to allocate 10% of its net profit, as determined under the Accounting Standards for Business Enterprises and other relevant requirements issued by the MOF on 15 February 2006. After making appropriations to the statutory surplus reserve fund, the Bank may also allocate its net profit to the discretionary surplus reserve fund upon approval by shareholders in Annual General Meetings.

47 General reserve

The general reserve of the Group is set up based upon the requirements of:

	Note	**30 June 2021**	31 December 2020
MOF	(1)	**341,307**	341,307
Hong Kong Banking Ordinance	(2)	**2,124**	2,124
Other regulatory bodies in the Chinese mainland	(3)	**5,756**	6,104
Other overseas regulatory bodies		**698**	693
Total		**349,885**	350,228

(1) Pursuant to relevant regulations issued by the MOF, the Bank has to appropriate a certain amount of its net profit as general reserve to cover potential losses against its assets. In accordance with the "Regulation on Management of Financial Institutions for Reserves" (Cai Jin [2012] No. 20) issued by the MOF on 30 March 2012, the general reserve balance for financial institutions should not be lower than 1.5% of the ending balance of gross risk-bearing assets.

(2) Pursuant to the requirements of the Hong Kong Banking Ordinance, the Group's banking operations in Hong Kong are required to set aside amounts in a regulatory reserve in respect of losses which it will, or may, incur on loans and advances to customers, in addition to impairment losses recognised in accordance with the accounting policies of the Group. Transfers to and from the regulatory reserve are made through retained earnings.

(3) Pursuant to the relevant regulatory requirements in the Chinese mainland, the Bank's subsidiaries are required to appropriate a certain amount of its net profit as general reserve.

48 Profit distribution

In the Annual General Meeting held on 25 June 2021, the shareholders approved the profit distribution for the year ended 31 December 2020. The Bank appropriated cash dividend for the year ended 31 December 2020 in an aggregate amount of RMB81,504 million.

49 Notes to the statement of cash flows

Cash and cash equivalents

	30 June 2021	31 December 2020	30 June 2020
Cash	**47,210**	49,068	61,051
Surplus deposit reserves with central banks	**343,116**	434,199	246,721
Demand deposits with banks and non-bank financial institutions	**77,909**	75,870	110,732
Time deposits with banks and non-bank financial institutions with original maturity with or within three months	**251,305**	112,194	63,410
Placements with banks and non-bank financial institutions with original maturity with or within three months	**176,618**	207,600	170,843
Total	**896,158**	878,931	652,757

50 Transferred financial assets

The Group enters into transactions in the normal course of business by which it transfers recognised financial assets to third parties or to structured entities. In some cases where these transferred financial assets qualify for derecognition, the transfers may give rise to full or partial derecognition of the financial assets concerned. In other cases where the transferred assets do not qualify for derecognition as the Group has retained substantially all the risks and rewards of these assets, the Group continued to recognise the transferred assets.

Securities lending transactions

Transferred financial assets that do not qualify for derecognition 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 have an obligation to return the securities at the maturity of the contract. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them. As at 30 June 2021, the carrying value of the Group's debt securities lent to counterparties was RMB6,039 million (as at 31 December 2020: RMB4,010 million).

Credit asset securitisation transactions

The Group enters into securitisation transactions 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 holding subordinated tranches which would 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, otherwise the financial assets are derecognized.

As at 30 June 2021, loans with an original carrying amount of RMB930,439 million (as at 31 December 2020: RMB829,400 million) have been securitised by the Group under arrangements in which the Group retained a continuing involvement in such assets. As at 30 June 2021, the carrying amount of assets that the Group continued to recognise was RMB96,255 million (as at 31 December 2020: RMB88,625 million). As at 30 June 2021, the carrying amount of continuing involvement assets and liabilities that the Group continued to recognise was RMB97,008 million (as at 31 December 2020: RMB88,951 million).

As at 30 June 2021, the carrying amount of asset-backed securities held in the securitisation transaction derecognised by the Group was RMB1,234 million (as at 31 December 2020: RMB1,340 million), and its maximum loss exposure approximates to the carrying amount.

51 Operating segments

The Group has presented the operating segments in a manner consistent with the way in which information is reported internally to the Group's chief operating decision makers for the purposes of resource allocation and performance assessment. Measurement of segment assets and liabilities and segment income and results is based on the Group's accounting policies.

Transactions between segments are conducted under normal commercial terms and conditions. Internal charges and transfer prices are determined with reference to market rates and have been reflected in the performance of each segment. Net interest income and expense arising from internal charges and transfer pricing adjustments are referred to as "internal net interest income/expense". Interest income and expense earned from third parties are referred to as "external net interest income/expense".

Segment revenues, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment income and results are determined before intra-group transactions are eliminated as part of the consolidation process. Segment capital expenditure is the total cost incurred during the period to acquire fixed assets, intangible assets and other long-term assets.

51 Operating segments (continued)

(1) Geographical segments

The Group operates principally in the Chinese mainland with branches covering all provinces, autonomous regions and municipalities directly under the central government, and several subsidiaries located in the Chinese mainland. The Group also has bank branch operations in Hong Kong, Macau, Taiwan, Singapore, Frankfurt, Johannesburg, Tokyo, Seoul, New York, Sydney, Ho Chi Minh City, Luxembourg, Toronto, London, Zurich, Dubai, Chile, Astana, Labuan, Auckland, etc., and certain subsidiaries operating in Hong Kong, London, Moscow, Luxembourg, British Virgin Islands, Auckland, Jakarta, San Paulo and Kuala Lumpur, etc.

In presenting information on the basis of geographical segments, operating income is allocated based on the location of the branches and subsidiaries that generate the income. Segment assets, liabilities and capital expenditure are allocated based on their geographical location.

Geographical segments of the Group, as defined for management reporting purposes, are defined as follows:

– "Yangtze River Delta" refers to the following areas where the tier-1 branches and the subsidiaries of the Bank operate: Shanghai Municipality, Jiangsu Province, Zhejiang Province, City of Ningbo and City of Suzhou;

– "Pearl River Delta" refers to the following areas where the tier-1 branches and the subsidiaries of the Bank operate: Guangdong Province, City of Shenzhen, Fujian Province and City of Xiamen;

– "Bohai Rim" refers to the following areas where the tier-1 branches and the subsidiaries of the Bank operate: Beijing Municipality, Shandong Province, Tianjin Municipality, Hebei Province and City of Qingdao;

– the "Central" region refers to the following areas where the tier-1 branches and the subsidiaries of the Bank operate: Shanxi Province, Guangxi Autonomous Region, Hubei Province, Henan Province, Hunan Province, Jiangxi Province, Hainan Province and Anhui Province;

– the "Western" region refers to the following areas where the tier-1 branches of the Bank operate: Sichuan Province, Chongqing Municipality, Guizhou Province, Yunnan Province, Tibet Autonomous Region, Inner Mongolia Autonomous Region, Shaanxi Province, Gansu Province, Qinghai Province, Ningxia Autonomous Region and Xinjiang Autonomous Region; and

– the "Northeastern" region refers to the following areas where the tier-1 branches of the Bank operate: Liaoning Province, Jilin Province, Heilongjiang Province and City of Dalian.

(Expressed in millions of RMB, unless otherwise stated)

51 Operating segments (continued)

(1) Geographical segments (continued)

	Six months ended 30 June 2021								
	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central	Western	Northeastern	Head Office	Overseas	Total
External net interest income	33,741	31,537	18,737	38,675	31,181	2,312	133,534	6,368	296,085
Internal net interest income/ (expense)	16,549	13,629	24,922	17,329	16,517	10,822	(99,723)	(45)	–
Net interest income	50,290	45,166	43,659	56,004	47,698	13,134	33,811	6,323	296,085
Net fee and commission income	12,559	14,450	12,102	10,899	7,598	2,644	7,658	1,528	69,438
Net trading gain/(loss)	400	165	228	216	49	16	2,232	(436)	2,870
Dividend income	237	–	2,979	291	1	–	26	123	3,657
Net (loss)/gain arising from investment securities	(602)	(557)	(955)	78	(853)	(206)	4,862	86	1,853
Net (loss)/gain on derecognition of financial assets measured at amortised cost	(5)	–	(13)	(2)	–	–	2,547	–	2,527
Other operating (expense)/income, net	(2,823)	273	834	218	822	47	2,810	2,296	4,477
Operating income	60,056	59,497	58,834	67,704	55,315	15,635	53,946	9,920	380,907
Operating expenses	(13,440)	(10,876)	(14,105)	(16,105)	(13,574)	(5,335)	(7,210)	(7,515)	(88,160)
Credit impairment losses	(16,702)	(21,154)	(14,003)	(16,956)	(16,577)	(8,330)	(12,617)	(1,981)	(108,320)
Other impairment losses	(5)	63	(169)	(18)	6	–	(7)	(62)	(192)
Share of profits of associates and joint ventures	5	–	33	86	–	–	–	104	228
Profit before tax	29,914	27,530	30,590	34,711	25,170	1,970	34,112	466	184,463
Capital expenditure	758	310	572	577	371	463	1,090	460	4,601
Depreciation and amortisation	1,773	1,515	2,118	2,304	1,919	831	1,614	1,111	13,185
	30 June 2021								
Segment assets	5,264,993	4,147,726	6,879,968	4,648,731	4,179,766	1,494,281	10,861,398	1,601,417	39,078,280
Long-term equity investments	608	401	5,096	6,814	–	–	800	1,036	14,755
	5,265,601	4,148,127	6,885,064	4,655,545	4,179,766	1,494,281	10,862,198	1,602,453	39,093,035
Deferred tax assets									102,518
Elimination									(9,362,365)
Total assets									29,833,188
Segment liabilities	5,210,266	4,091,537	6,768,157	4,590,768	4,147,716	1,488,491	8,964,804	1,470,072	36,731,811
Deferred tax liabilities									1,401
Elimination									(9,362,365)
Total liabilities									27,370,847
Off-balance sheet credit commitments	631,016	613,790	678,599	669,719	470,851	159,707	–	235,606	3,459,288

(Expressed in millions of RMB, unless otherwise stated)

51 Operating segments (continued)

(1) Geographical segments (continued)

	Six months ended 30 June 2020								
	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central	Western	Northeastern	Head Office	Overseas	Total
External net interest income	31,597	29,214	19,023	37,052	30,447	4,007	124,707	5,461	281,508
Internal net interest income/ (expense)	12,072	11,946	21,367	12,870	13,549	8,127	(81,655)	1,724	–
Net interest income	43,669	41,160	40,390	49,922	43,996	12,134	43,052	7,185	281,508
Net fee and commission income	10,801	14,154	11,241	9,844	6,919	2,477	8,194	1,376	65,006
Net trading gain/(loss)	143	126	115	155	91	20	2,800	(137)	3,313
Dividend income	73	–	969	281	1	–	54	118	1,496
Net gain/(loss) arising from investment securities	1,578	(232)	(92)	43	203	(1,062)	2,243	1,303	3,984
Net (loss)/gain on derecognition of financial assets measured at amortised cost	(3)	–	27	–	–	–	1,344	13	1,381
Other operating (expense)/income, net	(1,038)	433	970	115	748	34	810	1,164	3,236
Operating income	55,223	55,641	53,620	60,360	51,958	13,603	58,497	11,022	359,924
Operating expenses	(12,182)	(10,471)	(12,906)	(14,207)	(12,465)	(5,266)	(6,453)	(5,855)	(79,805)
Credit impairment losses	(15,545)	(16,962)	(13,422)	(30,207)	(13,392)	(5,046)	(14,253)	(2,551)	(111,378)
Other impairment losses	(10)	–	(130)	7	4	1	(28)	(32)	(188)
Share of profits of associates and joint ventures	–	–	149	68	–	–	–	3	220
Profit before tax	27,486	28,208	27,311	16,021	26,105	3,292	37,763	2,587	168,773
Capital expenditure	344	145	960	385	234	229	273	3,278	5,848
Depreciation and amortisation	1,787	1,621	2,157	2,531	2,075	918	1,104	877	13,070

	31 December 2020								
	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central	Western	Northeastern	Head Office	Overseas	Total
Segment assets	4,873,490	3,942,366	6,667,011	4,416,305	3,985,433	1,451,185	10,577,145	1,433,729	37,346,664
Long-term equity investments	604	–	4,850	7,196	–	–	–	1,052	13,702
	4,874,094	3,942,366	6,671,861	4,423,501	3,985,433	1,451,185	10,577,145	1,434,781	37,360,366
Deferred tax assets									92,950
Elimination									(9,321,062)
Total assets									28,132,254
Segment liabilities	4,836,646	3,915,742	6,596,879	4,397,877	3,963,977	1,453,094	8,585,097	1,313,100	35,062,412
Deferred tax liabilities									1,551
Elimination									(9,321,062)
Total liabilities									25,742,901
Off-balance sheet credit commitments	608,353	588,398	693,095	648,284	446,579	162,120	–	266,701	3,413,530

(Expressed in millions of RMB, unless otherwise stated)

51 Operating segments (continued)

(2) Business segments

Business segments, as defined for management reporting purposes, are as follows:

Corporate banking

This segment represents the provision of a range of financial products and services to corporations, government agencies and financial institutions. The products and services include corporate loans, trade financing, deposit taking and wealth management services, agency services, financial consulting and advisory services, cash management services, remittance and settlement services, custody services and guarantee services, etc.

Personal banking

This segment represents the provision of a range of financial products and services to individual customers. The products and services comprise personal loans, deposit taking and wealth management services, card business, remittance services and agency services, etc.

Treasury business

This segment covers the Group's treasury operations. The treasury enters into inter-bank money market transactions, repurchase and resale transactions, and invests in debt securities. It also trades in derivatives and foreign currencies for its own account. The treasury carries out customer-driven derivatives, foreign currency and precious metal trading. Its function also includes the management of the Group's overall liquidity position, including the issuance of debt securities.

Others

These represent equity investments and the revenues, results, assets and liabilities of overseas branches and subsidiaries.

	Six months ended 30 June 2021				
	Corporate banking	Personal banking	Treasury business	Others	Total
External net interest income	102,756	79,221	100,570	13,538	296,085
Internal net interest income/(expense)	33,486	60,232	(94,580)	862	–
Net interest income	136,242	139,453	5,990	14,400	296,085
Net fee and commission income	23,255	32,185	11,424	2,574	69,438
Net trading (loss)/gain	(887)	(29)	3,097	689	2,870
Dividend income	–	–	35	3,622	3,657
Net (loss)/gain arising from investment securities	(3,293)	(1,655)	5,261	1,540	1,853
Net gain/(loss) on derecognition of financial assets measured at amortised cost	650	1,828	69	(20)	2,527
Other operating income, net	36	400	2,910	1,131	4,477
Operating income	156,003	172,182	28,786	23,936	380,907
Operating expenses	(33,909)	(40,994)	(5,207)	(8,050)	(88,160)
Credit impairment losses	(88,220)	(14,503)	(1,948)	(3,649)	(108,320)
Other impairment losses	(1)	–	31	(222)	(192)
Share of profits of associates and joint ventures	–	–	–	228	228
Profit before tax	33,873	116,685	21,662	12,243	184,463
Capital expenditure	1,526	2,136	198	741	4,601
Depreciation and amortisation	4,621	6,468	598	1,498	13,185
	30 June 2021				
Segment assets	10,015,166	7,652,379	10,664,404	1,653,308	29,985,257
Long-term equity investments	–	–	–	14,755	14,755
	10,015,166	7,652,379	10,664,404	1,668,063	30,000,012
Deferred tax assets					102,518
Elimination					(269,342)
Total assets					29,833,188
Segment liabilities	12,071,438	11,671,392	1,589,344	2,306,614	27,638,788
Deferred tax liabilities					1,401
Elimination					(269,342)
Total liabilities					27,370,847
Off-balance sheet credit commitments	2,073,900	1,149,782	–	235,606	3,459,288

(Expressed in millions of RMB, unless otherwise stated)

51 Operating segments (continued)

(2) Business segments (continued)

	Six months ended 30 June 2020				
	Corporate banking	Personal banking	Treasury business	Others	Total
External net interest income	96,279	80,858	91,740	12,631	281,508
Internal net interest income/(expense)	30,447	43,361	(67,443)	(6,365)	–
Net interest income	126,726	124,219	24,297	6,266	281,508
Net fee and commission income	20,006	31,333	10,636	3,031	65,006
Net trading (loss)/gain	(1,046)	(19)	2,808	1,570	3,313
Dividend income	–	–	1	1,495	1,496
Net (loss)/gain arising from investment securities	(1,932)	(1,055)	6,980	(9)	3,984
Net gain on derecognition of financial assets measured at amortised cost	–	1,281	63	37	1,381
Other operating income/(expense), net	51	491	3,257	(563)	3,236
Operating income	143,805	156,250	48,042	11,827	359,924
Operating expenses	(29,173)	(37,791)	(4,927)	(7,914)	(79,805)
Credit impairment losses	(82,207)	(22,717)	(2,282)	(4,172)	(111,378)
Other impairment losses	–	–	(34)	(154)	(188)
Share of profits of associates and joint ventures	–	–	–	220	220
Profit before tax	32,425	95,742	40,799	(193)	168,773
Capital expenditure	741	1,067	108	3,932	5,848
Depreciation and amortisation	4,596	6,618	672	1,184	13,070

	31 December 2020				
Segment assets	9,235,872	7,409,563	10,077,510	1,472,784	28,195,729
Long-term equity investments	–	–	–	13,702	13,702
	9,235,872	7,409,563	10,077,510	1,486,486	28,209,431
Deferred tax assets					92,950
Elimination					(170,127)
Total assets					28,132,254
Segment liabilities	11,502,039	10,639,882	1,693,095	2,076,461	25,911,477
Deferred tax liabilities					1,551
Elimination					(170,127)
Total liabilities					25,742,901
Off-balance sheet credit commitments	2,115,619	1,031,210	–	266,701	3,413,530

(Expressed in millions of RMB, unless otherwise stated)

52 Entrusted lending business

As at the end of the reporting period, the entrusted loans and funds were as follows:

	30 June 2021	31 December 2020
Entrusted loans	3,590,187	3,572,599
Entrusted funds	3,590,187	3,572,599

53 Pledged assets

(1) Assets pledged as securities

The Group's collateral for liabilities or contingent liabilities includes financial assets such as securities and bills, which mainly serve as collateral for repurchase agreements and local statutory requirements. As at 30 June 2021, the carrying values of the Group's financial assets pledged as collateral amounted to approximately RMB1,211,879 million (31 December 2020: RMB1,137,581 million).

(2) Collateral accepted as securities for assets

As part of the resale agreements, the Group has received securities that is allowed to sell or repledge in the absence of default by their owners. As at 30 June 2021, 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 2020: nil).

54 Commitments and contingent liabilities

(1) Credit commitments

Credit commitments take the form of undrawn loan facilities which are approved and contracted, unutilised credit card limits, financial guarantees, letters of credit, etc. The Group assesses and makes allowance for any probable losses accordingly.

The contractual amounts of loan commitments and credit card overdraft commitments represent the cash outflows should the contracts be fully drawn upon. The amounts of guarantees and letters of credit represent the maximum potential loss that would be recognised if counterparties failed completely to perform as contracted. Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers.

As credit commitments may expire without being drawn upon, the contractual amounts set out in the following table do not represent the expected future cash outflows.

	30 June 2021	31 December 2020
Loan commitments		
– with an original maturity within one year	84,566	94,762
– with an original maturity of one year or over	380,769	488,350
Credit card commitments	1,186,517	1,068,582
	1,651,852	1,651,694
Bank acceptances	299,638	278,231
Financing guarantees	50,916	46,656
Non-financing guarantees	1,256,695	1,236,368
Sight letters of credit	47,742	43,329
Usance letters of credit	144,204	141,600
Others	8,241	15,652
Total	3,459,288	3,413,530

(Expressed in millions of RMB, unless otherwise stated)

54 Commitments and contingent liabilities (continued)

(2) Credit risk-weighted amount

The credit risk-weighted amount refers to the amount as computed in accordance with the rules set out by the CBIRC and depends on the status of the counterparty and the maturity characteristics.

	30 June 2021	31 December 2020
Credit risk-weighted amount of contingent liabilities and commitments	**1,090,995**	1,108,129

(3) Capital commitments

As at the end of the reporting period, the Group had capital commitments as follows:

	30 June 2021	31 December 2020
Contracted for	**11,716**	15,004

(4) Underwriting obligations

As at 30 June 2021, there was no unexpired underwriting commitment of the Group (as at 31 December 2020: Nil).

(5) Government bond redemption obligations

As an underwriting agent of PRC government bonds, the Group has the responsibility to buy back those bonds sold by it should the holders decide to early redeem the bonds held. The redemption price for the bonds at any time before their maturity date is based on the coupon value plus any interest unpaid and accrued up to the redemption date. Accrued interest payables to the bond holders are calculated in accordance with relevant rules of the MOF and the PBOC. The redemption price may be different from the fair value of similar instruments traded at the redemption date.

The redemption obligations, which represent the nominal value of government bonds underwritten and sold by the Group, but not yet matured as at 30 June 2021, were RMB69,505 million (as at 31 December 2020: RMB74,435 million).

(6) Outstanding litigations and disputes

As at 30 June 2021, the Group was the defendant in certain pending litigations and disputes with gross claims of RMB8,543 million (as at 31 December 2020: RMB9,424 million). Provisions have been made for the estimated losses arising from such litigations based upon the opinions of the Group's internal and external legal counsels (Note 39). The Group considers that the provisions made are reasonable and adequate.

(7) Provision against commitments and contingent liabilities

The Group assessed and made provisions for any probable outflow of economic benefits in relation to the commitments and contingent liabilities in accordance with their accounting policies.

(8) Impact of the *Guiding Opinions on Regulating the Asset Management Business of Financial Institutions*

In accordance with the *Guiding Opinions on Regulating the Asset Management Business of Financial Institutions* jointly issued by the PBOC and three other ministries as well as the PBOC's announcement to extend the transition period to 2021, the PBOC encourages financial institutions to dispose of legacy assets orderly using a range of methods such as replacing them with new products, market-based transfers, contract changes, and asset undertaking. The Group is pressing ahead with the rectification of legacy wealth management business and has assessed and recognised the impact of rectification on provisions and credit impairment losses in the financial statements. The Group will duly implement relevant policies and regulatory requirements, and continue to assess and disclose the relevant impact.

(Expressed in millions of RMB, unless otherwise stated)

55 Related party relationships and transactions

(1) Transactions with parent companies and their affiliates

The parent companies of the Group are CIC and Huijin.

As approved by the State Council, CIC was established on 29 September 2007 with registered capital of RMB1,550,000 million. As a wholly-owned subsidiary of CIC, Huijin exercises its rights and obligations as an investor on behalf of the PRC government in accordance with laws.

Huijin was incorporated on 16 December 2003 as a wholly-state-owned investment company. It was registered in Beijing with registered capital of RMB828,209 million. Its principal activities are equity investments as authorised by the State Council, without engaging in other commercial operations. As at 30 June 2021, Huijin directly held 57.11% of shares of the Bank.

The related companies under parent companies include the subsidiaries under parent companies and other associates and joint ventures.

The Group's transactions with parent companies and their affiliates mainly include deposit taking, entrusted asset management, operating leases, lending, purchase and sale of debt securities, money market transactions and inter-bank clearing. These transactions are priced based on market prices and conducted under normal commercial terms.

The Group has issued subordinated debts with a nominal value of RMB86,000 million (as at 31 December 2020: RMB80,000 million). These are bearer bonds and tradable in the secondary market. The Group has no information in respect of the amount of the bonds held by the affiliates of parent companies as at the end of the reporting period.

(a) *Transactions with parent companies*

In the ordinary course of the business, material transactions that the Group entered into with parent companies are as follows:

Amounts

	Six months ended 30 June			
	2021		2020	
	Amount	**Ratio to similar transactions**	Amount	Ratio to similar transactions
Interest income	**820**	**0.16%**	1,101	0.23%
Interest expense	**55**	**0.03%**	31	0.02%
Net trading gain	**1**	**0.03%**	29	0.88%

Balances outstanding as at the end of the reporting period

	30 June 2021		31 December 2020	
	Balance	**Ratio to similar transactions**	Balance	Ratio to similar transactions
Loans and advances to customers	**4,000**	**0.02%**	4,000	0.02%
Financial investments				
Financial assets measured at fair value through profit or loss	**41**	**0.01%**	104	0.02%
Financial assets measured at amortised cost	**24,161**	**0.51%**	23,490	0.52%
Financial assets measured at fair value through other comprehensive income	**19,822**	**1.01%**	20,163	1.08%
Deposits from banks and non-bank financial institutions	**1**	**0.00%**	12	0.00%
Deposits from customers	**25,306**	**0.11%**	5,681	0.03%
Credit commitments	**288**	**0.01%**	288	0.01%

(Expressed in millions of RMB, unless otherwise stated)

55 Related party relationships and transactions (continued)

(1) Transactions with parent companies and their affiliates (continued)

(b) *Transactions with the affiliates of parent companies*

In the ordinary course of the business, material transactions that the Group entered into with the affiliates of parent companies are as follows:

Amounts

	Note	Six months ended 30 June 2021 Amount	2021 Ratio to similar transactions	2020 Amount	2020 Ratio to similar transactions
Interest income		**9,385**	**1.82%**	9,385	1.93%
Interest expense		**1,440**	**0.65%**	1,911	0.94%
Fee and commission income		**199**	**0.26%**	152	0.21%
Fee and commission expense		**57**	**0.70%**	207	2.69%
Net trading gain		**151**	**5.26%**	214	6.46%
Net gain arising from investment securities		**1,248**	**67.35%**	947	23.77%
Operating expenses	(i)	**434**	**0.49%**	335	0.42%

Balances outstanding as at the end of the reporting period

	Note	30 June 2021 Balance	30 June 2021 Ratio to similar transactions	31 December 2020 Balance	31 December 2020 Ratio to similar transactions
Deposits with banks and non-bank financial institutions		**48,712**	**10.37%**	85,722	18.91%
Placements with banks and non-bank financial institutions		**67,565**	**20.47%**	138,354	37.55%
Positive fair value of derivatives		**10,988**	**21.01%**	14,013	20.30%
Financial assets held under resale agreements		**25,287**	**3.59%**	35,743	5.94%
Loans and advances to customers		**85,917**	**0.49%**	72,800	0.45%
Financial investments					
Financial assets measured at fair value through profit or loss		**94,717**	**16.46%**	97,007	16.78%
Financial assets measured at amortised cost		**154,420**	**3.29%**	200,448	4.45%
Financial assets measured at fair value through other comprehensive income		**221,255**	**11.31%**	221,531	11.86%
Other assets		**300**	**0.09%**	53	0.02%
Deposits from banks and non-bank financial institutions	(ii)	**140,407**	**7.90%**	124,039	6.38%
Placements from banks and non-bank financial institutions		**111,703**	**30.44%**	119,434	34.16%
Financial liabilities measured at fair value through profit or loss		**33**	**0.01%**	90	0.04%
Negative fair value of derivatives		**8,376**	**19.12%**	12,037	14.69%
Financial assets sold under repurchase agreements		**72,179**	**62.40%**	1,291	2.28%
Deposits from customers		**73,682**	**0.33%**	74,052	0.36%
Other liabilities		**9,585**	**1.64%**	6,587	1.21%
Credit commitments		**9,050**	**0.26%**	14,193	0.42%

(i) Operating expenses mainly represent fees for related services provided by parent companies and their affiliates.

(ii) Deposits from the affiliates of parent companies are unsecured and are repayable under normal commercial terms.

(Expressed in millions of RMB, unless otherwise stated)

55 Related party relationships and transactions (continued)

(2) Transactions with associates and joint ventures of the Group

Transactions between the Group and its associates and joint ventures are conducted in the normal and ordinary course of the business and under normal commercial terms as those transactions conducted between the Group and non-related companies outside the Group.

In the ordinary course of the business, material transactions that the Group entered into with associates and joint ventures are as follows:

Amounts

	Six months ended 30 June	
	2021	2020
Interest income	**174**	94
Interest expense	**35**	19
Fee and commission income	**29**	60
Fee and commission expense	**–**	2
Operating expenses	**51**	42

Balances outstanding as at the end of the reporting period

	30 June 2021	31 December 2020
Loans and advances to customers	**9,344**	7,959
Other assets	**1,028**	913
Financial liabilities measured at fair value through profit or loss	**3**	7
Financial assets sold under repurchase agreements	**972**	–
Deposits from customers	**8,211**	8,047
Other liabilities	**5,118**	6,709
Credit commitments	**412**	303

(3) Transactions between the Bank and its subsidiaries

Transactions between the Bank and its subsidiaries are conducted in the normal and ordinary course of the business and under normal commercial terms as those transactions are conducted between the Group and non-related companies outside the Group. All the inter-group transactions and inter-group balances are eliminated when preparing the consolidated financial statements as mentioned in Note 2(3).

In the ordinary course of the business, material transactions that the Bank entered into with its subsidiaries are as follows:

Amounts

	Six months ended 30 June	
	2021	2020
Interest income	**881**	1,039
Interest expense	**448**	727
Fee and commission income	**1,655**	1,434
Fee and commission expense	**373**	383
Dividend income	**273**	271
Net loss arising from investment securities	**–**	2
Operating expenses	**3,769**	1,942
Other operating income/(expense), net	**12**	(8)

(Expressed in millions of RMB, unless otherwise stated)

55 Related party relationships and transactions (continued)

(3) Transactions between the Bank and its subsidiaries (continued)

Balances outstanding as at the end of the reporting period

	30 June 2021	31 December 2020
Deposits with banks and non-bank financial institutions	**983**	3,166
Placements with banks and non-bank financial institutions	**125,380**	119,347
Positive fair value of derivatives	**207**	177
Financial assets held under resale agreements	**621**	–
Loans and advances to customers	**5,515**	5,875
Financial investments		
Financial assets measured at fair value through profit or loss	**1,292**	654
Financial assets measured at amortised cost	**1,282**	1,206
Financial assets measured at fair value through other comprehensive income	**22,618**	18,262
Other assets	**37,474**	37,967

	30 June 2021	31 December 2020
Deposits from banks and non-bank financial institutions	**27,549**	11,905
Placements from banks and non-bank financial institutions	**33,267**	39,189
Financial liabilities measured at fair value through profit or loss	**92**	109
Negative fair value of derivatives	**119**	317
Deposits from customers	**6,228**	7,399
Debt securities issued	**–**	50
Other liabilities	**5,479**	9,015

As at 30 June 2021, the total maximum guarantee limit of guarantee letters issued by the Bank with its subsidiaries as beneficiary was RMB15,784 million (as at 31 December 2020: RMB16,455 million).

As at 30 June 2021, the transactions between subsidiaries of the Group were mainly deposits with banks and non-bank financial institutions and deposits from customers, and the balances of the above transactions were RMB2,130 million and RMB1,660 million respectively (as at 31 December 2020, the transactions between subsidiaries of the Group were mainly debt securities issued and deposits with banks and non-bank financial institutions, and the balances of the above transactions were RMB1,457 million and RMB1,022 million respectively).

(4) Transactions with the Annuity Scheme and Plan Assets

Apart from the obligations for defined contributions to the Annuity Scheme and regular banking transactions, there were no other transactions between the Group and the Annuity Scheme for the six months ended 30 June 2021 and for the year ended 31 December 2020.

As at 30 June 2021, the fair value of the Group's supplementary retirement benefit plan assets managed by CCB Principal Asset Management and CCB Pension was RMB3,666 million (as at 31 December 2020: RMB3,918 million), management fees payable to CCB Principal Asset Management and CCB Pension were RMB6.08 million (as at 31 December 2020: RMB28.05 million).

(5) Key management personnel

Key management personnel are those persons having authorities and responsibilities for planning, directing and controlling the activities of the Group, directly or indirectly, including directors, supervisors and senior executives. The Group enters into banking transactions with key management personnel in the normal course of business. For the six months ended 30 June 2021 and for the year ended 31 December 2020, there were no material transactions and balances with key management personnel.

The Group had no material balances of loans, quasi-loans and other credit transactions to directors, supervisors and senior executives as at the end of the reporting period. Those loans, quasi-loans and other credit transactions to directors, supervisors and senior executives were conducted in the normal and ordinary course of the business and under normal commercial terms or on the same terms and conditions with those which are available to other employees, based on terms and conditions granted to third parties adjusted for risk reduction.

55 Related party relationships and transactions (continued)

(6) Transactions related to natural persons

As at 30 June 2021, the aggregate balance of loans and credit card overdraft to the persons who were considered as related parties according to the relevant rules of the Shanghai Stock Exchange was RMB5.59 million (as at 31 December 2020: RMB3.70 million).

As at 30 June 2021, the aggregate balance of credit related transactions to the related parties as defined in the *Administration of Connected Transactions between Commercial Banks and Their Insiders* by the CBRC was RMB183 million (as at 31 December 2020: RMB191 million).

56 Risk management

The Group has exposure to the following risks:

- credit risk
- market risk
- liquidity risk
- operational risk
- insurance risk

This note presents information about the Group's exposures to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's capital management.

Risk management framework

The Board performs risk management responsibilities pursuant to the Bank's Articles of Association and regulatory requirements. The Risk Management Committee under the Board is responsible for developing risk management strategies, supervising the implementation, and assessing the overall risk profile on a regular basis. The Board reviews the statements of risk appetite regularly and transmits risk appetite through policies. The Board of Supervisors supervises the construction of the comprehensive risk management system, as well as the performance of the Board and senior management in delivering comprehensive risk management responsibilities. Senior management is responsible for implementing risk strategies developed by the Board and organising the comprehensive risk management work across the Group.

Chief Risk Officer of the Bank assists the President with risk management work within designated responsibilities. Risk Management Department is the leading management department responsible for the Group's comprehensive risk management, and its subordinate department, Market Risk Management Department takes the lead in market risk management. Credit Management Department is the leading management department responsible for the overall credit risk management and country risk management. Asset & Liability Management Department is the leading management department responsible for the management of liquidity risk and interest rate risk of banking book. Internal Control & Compliance Department is the leading management department responsible for operational risk and information technology risk management. Public Relations & Corporate Culture Department is in charge of reputational risk management. Strategy and Policy Coordination Department is the leading management department responsible for strategic risk management. Other specialised departments are responsible for other risks.

The Bank attached great importance to the risk management of subsidiaries, implemented management requirements of the parent bank through the corporate governance mechanism, continuously improved the quality and efficiency of the performance of the Board of Directors of the subsidiaries, and required the subsidiaries to focus on their main businesses, operate steadily, and establish a sound risk control system. It further highlighted the transmission of risk appetite at the Group level within the group risk management framework, and implemented refined and differentiated management of different types of subsidiaries. It strengthened the Group's consolidation and credit management to avoid lending beyond credit limits. It continued to promote the establishment of risk views of subsidiaries, and effectively improved the digital level of risk early warning and risk monitoring of subsidiaries. It strengthened overall planning and coordination and improved the long-term mechanism for risk management of the asset management business at the subsidiaries.

56 Risk management (continued)

(1) Credit risk

Credit risk management

Credit risk represents the financial loss that arises from the failure of a debtor or counterparty to discharge its contractual obligations or commitments to the Group.

Credit business

The Risk Management Department takes the lead in the development and implementation of the credit risk measurement tools including customers rating and facilities grading. The Credit Management Department is responsible for establishing credit risk management policies and monitoring the quality of credit assets. The Special Assets Resolution Department is responsible for the special assets resolutions. The Credit Approval Department is responsible for the Group's comprehensive credit limits and credit approval of various credit businesses. While the Credit Management Department takes the lead, both the Credit Management Department and the Credit Approval Department will coordinate with the Corporate Banking Department, the Inclusive Finance Department, the Institutional Banking Department, the International Business Department, the Strategic Clients Department, the Housing Finance & Personal Lending Department, the Credit Card Center, and the Legal Affairs Department to implement the credit risk management policies and procedures.

With respect to the credit risk management of corporate and institutional business, the Group has accelerated the adjustment of its credit portfolio structure, enhanced post-lending monitoring, and refined the industry-specific guideline and policy baseline for credit approval. Management also fine-tuned the credit acceptance and exit policies, and optimised its economic capital and credit risk limit management. All these policies have been implemented to maintain the stability of asset quality. The Group manages credit risk throughout the entire credit process including pre-lending evaluations, credit approval and post-lending monitoring. The Group performs pre-lending evaluations by assessing the entity's credit ratings based on internal rating criteria and assessing the risk and rewards with respect to the proposed project. Credit approvals are granted by designated Credit Approval Officers. The Group continually carries out post-lending monitoring, particularly those related to targeted industries, geographical segments, products and clients. Any adverse events that may significantly affect a borrower's repayment ability are reported timely and measures are implemented to prevent and control risks.

With respect to the personal credit business, the Group relies on credit assessment of applicants as the basis for loan approval. Customer relationship managers are required to assess the income, credit history, and repayment ability of the applicant. The customer relationship managers then forward the application and recommendations to the loan-approval departments for consent. The Group pays great attention to post-lending monitoring of personal loans, focuses on borrowers' repayment ability, the status of collateral and any changes to collateral value. Once a loan becomes overdue, the Group starts the recovery process according to standard recovery procedures.

To mitigate risks, the Group requests the customers to provide collateral or guarantees where appropriate. A refined management system and operating procedure for collateral have been developed, and there is a guideline to specify the suitability of accepting specific types of collateral. Collateral values, structures and legal covenants are regularly reviewed to ensure that they still serve their intended purposes and conform to market practices.

Treasury business

For risk management purposes, credit risk arising from debt securities and derivatives exposures is managed independently and information thereon is disclosed in Notes (1)(i) and (1)(j) below. The Group sets credit limits for treasury activities and monitors them regularly with reference to the fair values of the relevant financial instruments.

Measurement of expected credit losses (ECL)

(A) Segmentation of financial instruments

The Group adopts a "three-stage" model for impairment based on changes in credit risk since initial recognition or by determining whether the financial instruments are credit-impaired, to estimate the expected credit losses.

The key definition of the three stages are summarised below:

Stage 1: For financial instruments with no significant increase in credit risk after initial recognition, expected credit losses in the next 12 months are recognised.

Stage 2: For financial instruments with significant increase in credit risk since initial recognition, but with no objective evidence of impairment, lifetime expected credit losses are recognised.

Stage 3: For financial instruments with objective evidence of impairment on the balance sheet date, lifetime expected credit losses are recognised.

56 Risk management (continued)

(1) Credit risk (continued)

Measurement of expected credit losses (ECL) (continued)

(B) Significant increase in credit risk ("SICR")

The Group assesses at least quarterly whether the credit risk of a financial instrument has increased significantly since initial recognition. The Group compares the risk of default of financial instruments as at the balance sheet date with that as at the date of initial recognition for an individual financial instrument or a group of financial instruments with similar credit risk characteristics to determine whether the credit risk has increased significantly since initial recognition. The Group sufficiently considers all reasonable and supportable information in related assessments, including regulatory and business environment, internal and external credit rating of customer, customer repayment ability, customer operation capacity, contract terms of the loan, asset price, market interest rate, customer repayment behaviors, and forward-looking information.

The Group has set qualitative and quantitative criteria for assessing whether the credit risk of financial instruments has increased significantly since initial recognition. For example, the credit risk of corporate loans and advances whose internal credit ratings have fallen to level 15 and below, and of bond investments whose internal credit ratings have fallen by 2 and more levels, is regarded as having increased significantly.

Usually, the credit risk of loans overdue for more than 30 days is regarded as having increased significantly.

For borrowers who were eligible for temporary deferral in principal repayment and interest payment, deferred repayment and other credit support measures in the wake of COVID-19, the Group, by reference to guidelines by relevant regulators, did not consider these support measures as an automatic trigger of a significant increase in credit risk. The Group continued to make judgment based on substantive risk assessment and comprehensively considered the operations and repayment capacity of borrowers, as well as the impact of COVID-19 on these borrowers, to assess whether the credit risk of relevant financial instruments had increased significantly since initial recognition.

(C) Definition of default and credit-impaired assets

The Group considers a financial asset as having defaulted when it is credit-impaired. Generally, financial assets overdue for more than 90 days on contractual payment terms shall be considered as having credit-impaired.

In order to evaluate whether a financial asset is impaired, the Group considers the following criteria:

- Significant financial difficulty of the borrower or issuer;
- Breach of contract terms, such as a default or delinquency in interest or principal payments;
- The Group, for economic or legal reasons, making a concession to a borrower experiencing financial difficulty that the Group would not otherwise consider;
- It is becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;
- Disappearance of an active market for financial assets because of financial difficulties;
- A financial asset purchased or originated by a large discount which reflects the fact of credit-impairment having occurred;
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Group, including adverse changes in the payment status of borrowers in the Group, an increase in the unemployment rate in the geographical area of the borrowers, a decrease in property prices for mortgages in the relevant area, or adverse changes in industry conditions that affect the borrowers in the Group; and
- Other objective evidence indicating there is a credit impairment of the financial asset.

The Group's definition of default has been consistently applied to the estimates of PD, LGD and EAD during the ECL measurement.

56 Risk management (continued)

(1) Credit risk (continued)

Measurement of expected credit losses (ECL) (continued)

(D) Explanation of parameters, assumptions and estimation techniques

The ECL is recognised on either a 12-month or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether a financial instrument is considered to be credit-impaired. Expected credit losses are the discounted product of the weighted average of PD, LGD, and EAD under the optimistic, baseline and pessimistic scenarios, defined as follows:

PD refers to the likelihood of a borrower defaulting on its financial obligation in the future, after consideration of forward-looking information. Please refer to earlier disclosure in this note for the definition of default.

LGD refers to the Group's expected loss amount resulting from default as a proportion of total exposure, after consideration of forward-looking information.

EAD is the total amount of risk exposure on and off-balance sheet at the time of default. The exposure is determined by the repayment plan according to different types of products.

The discount rate used in the ECL measurement is the effective interest rate.

During the reporting period, based on changes in macroeconomic environment, the Group has updated forward-looking information used in the measurement of expected credit losses. Please refer to further disclosure in this note for forward-looking information which is incorporated in the measurement of expected credit losses.

The assumptions underlying the ECL measurement, such as the PDs for different maturities and how the collateral values change, are monitored and reviewed on a quarterly basis.

There have been no significant changes in estimation techniques and such assumptions made during the reporting period.

(E) Forward-looking information incorporated in the ECL

The assessment of SICR and the measurement of ECL both incorporate forward-looking information.

The Group has performed historical data analysis and identified the macroeconomic variables affecting expected credit losses, such as GDP, CPI, M2, PPI, RMB deposit reserve rate, London spot gold price, average exchange rate of US Dollar to RMB, sales price indices of second-hand residential buildings in 70 large and medium-sized cities, national real estate climate index, unemployment rate, and so on.

COVID-19 has made an unprecedented impact on the global macro economy, bringing great uncertainties and significantly increasing the difficulty of forecasting macroeconomic variables. In order to further improve the accuracy of forecasts, the Group developed scenarios specifically tailored for ECL measurement by reference to forecast results of authoritative international and domestic institutions and leveraging on the capability of internal experts.

The forecast GDP value for baseline scenario is set as the average value of forecasts released by authoritative international and domestic institutions, and the forecast 2021 GDP growth under the baseline scenario is 8.40%. For other macroeconomic variables, the Group involved internal experts and used methods such as transmission models, economic principles, and expert judgment to calculate the predicted value of each variable under each scenario.

The Group constructs empirical models to derive the relationship between historical macroeconomic variables and PD and LGD, and calculates the PD and LGD values for a given future horizon using the forecasted macroeconomic variables.

The Group constructs empirical models to determine the weightings for optimistic, baseline and pessimistic scenarios. As at 30 June 2021 and 31 December 2020, the optimistic, baseline and pessimistic scenarios are of comparable weighting.

(F) Grouping of financial instruments for losses measured on a collective basis

For expected credit loss provisions modelled on a collective basis, the Group has divided exposures with shared risk characteristics into separate groups. In performing this grouping, the Group obtained sufficient information to ensure it is statistically reliable. The Group measured expected credit losses on personal loans and advances on a collective basis by considering factors such as internal risk pool, product type and client type.

(Expressed in millions of RMB, unless otherwise stated)

56 Risk management (continued)

(1) Credit risk (continued)

(a) *Maximum credit risk exposure*

The following table presents the maximum exposure to credit risk as at the end of the reporting period without taking into consideration any collateral held or other credit enhancement. In respect of the financial assets recognised in the statement of financial position, the maximum exposure to credit risk is represented by the carrying amount after deducting any impairment allowance.

	30 June 2021	31 December 2020
Deposits with central banks	**2,733,228**	2,767,096
Deposits with banks and non-bank financial institutions	**469,534**	453,233
Placements with banks and non-bank financial institutions	**330,107**	368,404
Positive fair value of derivatives	**52,304**	69,029
Financial assets held under resale agreements	**705,282**	602,239
Loans and advances to customers	**17,493,902**	16,231,369
Financial investments		
Financial assets measured at fair value through profit or loss	**333,696**	361,318
Financial assets measured at amortised cost	**4,696,655**	4,505,243
Financial assets measured at fair value through other comprehensive income	**1,948,571**	1,860,503
Other financial assets	**301,675**	205,860
Total	**29,064,954**	27,424,294
Off-balance sheet credit commitments	**3,459,288**	3,413,530
Maximum credit risk exposure	**32,524,242**	30,837,824

(b) *Loans and advances to customers analysed by credit quality*

Within overdue but not credit impaired loans and advances and credit impaired loans and advances, the portions covered and not covered by collateral held are as follows:

	30 June 2021		
	Overdue but not credit impaired loans and advances		**Credit impaired loans and advances**
	Corporate	**Personal**	**Corporate**
Portion covered	**2,349**	**19,744**	**74,931**
Portion not covered	**3,333**	**9,010**	**172,334**
Total	**5,682**	**28,754**	**247,265**

	31 December 2020		
	Overdue but not credit impaired loans and advances		Credit impaired loans and advances
	Corporate	Personal	Corporate
Portion covered	1,011	16,468	81,636
Portion not covered	1,535	10,419	148,796
Total	2,546	26,887	230,432

The above collateral includes land use rights, buildings and equipment, etc. The fair value of collateral was estimated by the Group with reference to the latest available external valuations adjusted after taking into account the current realisation experience as well as the market situation.

(Expressed in millions of RMB, unless otherwise stated)

56 Risk management (continued)

(1) Credit risk (continued)

(c) Loans and advances to customers analysed by economic sector concentrations

	30 June 2021			31 December 2020		
	Gross loan balance	**Percentage**	**Balance secured by collateral**	Gross loan balance	Percentage	Balance secured by collateral
Corporate loans and advances						
– Transportation, storage and postal services	**1,801,606**	**9.95%**	**554,314**	1,703,060	10.14%	529,450
– Leasing and commercial services	**1,708,165**	**9.43%**	**538,355**	1,481,999	8.83%	505,365
– Manufacturing	**1,557,603**	**8.60%**	**401,102**	1,425,165	8.49%	378,593
– Production and supply of electric power, heat, gas and water	**946,361**	**5.23%**	**196,108**	867,109	5.17%	189,047
– Wholesale and retail trade	**915,531**	**5.06%**	**461,254**	773,466	4.61%	377,767
– Real estate	**852,363**	**4.71%**	**457,165**	788,560	4.70%	436,419
– Water, environment and public utility management	**627,109**	**3.46%**	**269,344**	540,313	3.22%	235,243
– Construction	**459,489**	**2.54%**	**122,413**	396,171	2.36%	106,836
– Mining	**264,449**	**1.46%**	**16,216**	236,199	1.41%	16,885
– Agriculture, forestry, farming, fishing	**98,734**	**0.55%**	**23,377**	88,754	0.53%	17,644
– Education	**76,092**	**0.42%**	**17,486**	72,721	0.43%	16,713
– Public management, social securities and social organisation	**55,960**	**0.31%**	**425**	55,905	0.33%	1,604
– Others	**847,544**	**4.67%**	**237,979**	746,102	4.44%	210,436
Total corporate loans and advances	**10,211,006**	**56.39%**	**3,295,538**	9,175,524	54.66%	3,022,002
Personal loans and advances	**7,612,428**	**42.04%**	**6,420,157**	7,311,183	43.55%	6,104,175
Discounted bills	**241,305**	**1.33%**	**–**	259,061	1.54%	–
Accrued interest	**44,304**	**0.24%**	**–**	41,664	0.25%	–
Total loans and advances to customers	**18,109,043**	**100.00%**	**9,715,695**	16,787,432	100.00%	9,126,177

As at 30 June 2021, no economic sector accounted for 10% or above of the Group's total balance of loans and advances to customers.

The table below lists economic sectors accounting for 10% or above of the Group's total balance of loans and advances to customers as at 31 December 2020, details of credit impaired (stage 3) loans, allowances for expected credit losses, charges, and amounts written off:

	31 December 2020				2020	
		Allowances for expected credit losses				
	Stage 3 Gross loans	Stage 1	Stage 2	Stage 3	Charge for the year	Written off during the year
Transportation, storage and postal services	37,695	(28,478)	(14,023)	(27,783)	(14,829)	2,382

(Expressed in millions of RMB, unless otherwise stated)

56 Risk management (continued)

(1) Credit risk (continued)

(d) Loans and advances to customers analysed by geographical sector concentrations

	30 June 2021			31 December 2020		
	Gross loan balance	**Percentage**	**Balance secured by collateral**	Gross loan balance	Percentage	Balance secured by collateral
Yangtze River Delta	**3,312,352**	**18.29%**	**1,975,266**	3,003,466	17.89%	1,823,289
Central	**3,310,716**	**18.28%**	**2,026,401**	3,084,244	18.37%	1,914,520
Bohai Rim	**3,031,962**	**16.74%**	**1,445,162**	2,819,557	16.80%	1,367,386
Pearl River Delta	**2,987,484**	**16.50%**	**2,028,590**	2,770,718	16.50%	1,885,512
Western	**2,923,996**	**16.15%**	**1,675,265**	2,741,336	16.33%	1,589,540
Northeastern	**798,547**	**4.41%**	**384,943**	766,232	4.56%	375,371
Head office	**843,827**	**4.66%**	**–**	830,609	4.95%	–
Overseas	**855,855**	**4.73%**	**180,068**	729,606	4.35%	170,559
Accrued interest	**44,304**	**0.24%**	**–**	41,664	0.25%	–
Gross loans and advances to customers	**18,109,043**	**100.00%**	**9,715,695**	16,787,432	100.00%	9,126,177

Details of Stage 3 loans and expected credit losses in respect of geographical sectors as at the end of the reporting period are as follows:

	30 June 2021			
	Stage 3 Gross loan balance	**Allowances for expected credit losses**		
		Stage 1	**Stage 2**	**Stage 3**
Central	**73,232**	**(58,222)**	**(22,018)**	**(49,651)**
Bohai Rim	**43,259**	**(53,875)**	**(22,434)**	**(25,351)**
Western	**41,311**	**(54,982)**	**(24,261)**	**(24,868)**
Pearl River Delta	**37,657**	**(55,660)**	**(17,134)**	**(21,512)**
Yangtze River Delta	**34,830**	**(65,168)**	**(21,853)**	**(20,053)**
Northeastern	**29,263**	**(13,741)**	**(9,120)**	**(19,554)**
Head office	**10,833**	**(15,475)**	**(1,602)**	**(9,502)**
Overseas	**6,596**	**(3,107)**	**(2,624)**	**(3,374)**
Total	**276,981**	**(320,230)**	**(121,046)**	**(173,865)**

	31 December 2020			
	Stage 3 Gross loans balance	Allowances for expected credit losses		
		Stage 1	Stage 2	Stage 3
Central	65,990	(50,739)	(19,917)	(49,417)
Bohai Rim	43,467	(45,227)	(21,927)	(26,744)
Western	39,218	(48,926)	(17,893)	(25,133)
Pearl River Delta	38,323	(46,614)	(12,955)	(21,855)
Yangtze River Delta	32,932	(53,150)	(20,265)	(20,308)
Northeastern	22,581	(12,771)	(9,112)	(15,654)
Head office	11,772	(15,165)	(2,917)	(10,231)
Overseas	6,446	(2,836)	(3,113)	(3,194)
Total	260,729	(275,428)	(108,099)	(172,536)

The definitions of geographical segments are set out in Note 51(1). The above allowances for ECL do not include allowances for ECL of loans and advances measured at fair value through other comprehensive income.

(Expressed in millions of RMB, unless otherwise stated)

56 Risk management (continued)

(1) Credit risk (continued)

(e) *Loans and advances to customers analysed by type of collateral*

	30 June 2021	31 December 2020
Unsecured loans	5,862,906	5,397,481
Guaranteed loans	2,486,138	2,222,110
Loans secured by property and other immovable assets	8,229,341	7,703,618
Other pledged loans	1,486,354	1,422,559
Accrued interest	44,304	41,664
Gross loans and advances to customers	18,109,043	16,787,432

(f) *Restructured loans and advances to customers*

Restructured loans and advances to customers are those loans and advances to customers for which the Group has modified the contract terms as a result of the deterioration in the borrower's financial position or of the borrower's inability to make payments when due. The proportion of the Group's restructured loans and advances to customers were not significant as at 30 June 2021 and 31 December 2020.

(g) *Credit exposure*

Loans and advances to customers

	30 June 2021			
	Stage 1 12 months ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Low risk	17,212,797	66,326	–	17,279,123
Medium risk	–	503,976	–	503,976
High risk	–	–	276,981	276,981
Gross loans and advances	17,212,797	570,302	276,981	18,060,080
Allowances for impairment losses on loans and advances measured at amortised cost	(320,230)	(121,046)	(173,865)	(615,141)
Allowances for impairment losses on loans and advances measured at fair value through other comprehensive income	(709)	(130)	–	(839)

(Expressed in millions of RMB, unless otherwise stated)

56 Risk management (continued)

(1) Credit risk (continued)

(g) *Credit exposure (continued)*

Loans and advances to customers (continued)

	31 December 2020			
	Stage 1 12 months ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Low risk	15,937,968	44,916	–	15,982,884
Medium risk	–	492,265	–	492,265
High risk	–	–	260,729	260,729
Gross loans and advances	15,937,968	537,181	260,729	16,735,878
Allowances for impairment losses on loans and advances measured at amortised cost	(275,428)	(108,099)	(172,536)	(556,063)
Allowances for impairment losses on loans and advances measured at fair value through other comprehensive income	(603)	(237)	–	(840)

The Group classifies asset risk characteristics according to the quality of assets. "Low risk" means that the borrower can fulfil the contract, and there are not enough reasons to suspect that the principal and interest of the loan cannot be repaid in full on time; "Medium risk" means that the borrower is currently able to repay the principal and interest of the loan, but there are some factors that may adversely affect the repayment; "High risk" means that the borrower has obvious problems in its repayment ability and loan principal and interest cannot be repaid in full by relying on normal business income. Even if the guarantee is enforced, losses may be incurred.

Financial investments

	30 June 2021			
	Stage 1 12 months ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
Low risk	**6,551,037**	**205**	**–**	**6,551,242**
Medium risk	**11,205**	**3,037**	**–**	**14,242**
High risk	**–**	**–**	**11,130**	**11,130**
Total carrying amount excluding accrued interest	**6,562,242**	**3,242**	**11,130**	**6,576,614**
Allowance for impairment losses on financial assets measured at amortised cost	**(14,415)**	**(182)**	**(8,180)**	**(22,777)**
Allowance for impairment losses on financial assets measured at fair value through other comprehensive income	**(3,277)**	**(7)**	**–**	**(3,284)**

(Expressed in millions of RMB, unless otherwise stated)

56 Risk management (continued)

(1) Credit risk (continued)

(g) Credit exposure (continued)

Financial investments (continued)

	31 December 2020			
	Stage 1 12 months ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Low risk	6,266,753	208	–	6,266,961
Medium risk	16,995	2,420	–	19,415
High risk	–	947	10,420	11,367
Total carrying amount excluding accrued interest	6,283,748	3,575	10,420	6,297,743
Allowance for impairment losses on financial assets measured at amortised cost	(13,211)	(282)	(6,745)	(20,238)
Allowance for impairment losses on financial assets measured at fair value through other comprehensive income	(3,334)	(11)	–	(3,345)

The Group classifies financial investment risk characteristics based on asset entry and internal rating changes. “Low risk” means that the issuer’s initial internal rating is above the entry level, and there are no reasons to suspect that the financial investment is expected to be defaulted; “Medium risk” means that although the issuer’s internal rating is reduced to a certain extent, there are not enough reasons to suspect that the financial investment is expected to be defaulted; “High risk” means that there are obvious problems which may cause a default, or the financial investment indeed is defaulted.

Amounts due from banks and non-bank financial institutions

Amount due from banks and non-bank financial institutions includes deposits and placements with banks and non-bank financial institutions, and financial assets held under resale agreements of which counterparties are banks and non-bank financial institutions.

	30 June 2021			
	Stage 1 12 months ECL	**Stage 2 lifetime ECL**	**Stage 3 lifetime ECL**	**Total**
Low risk	**1,501,442**	**–**	**–**	**1,501,442**
Medium risk	**–**	**–**	**–**	**–**
High risk	**–**	**–**	**–**	**–**
Total carrying amount excluding accrued interest	**1,501,442**	**–**	**–**	**1,501,442**
Allowance for impairment losses	**(621)**	**–**	**–**	**(621)**

	31 December 2020			
	Stage 1 12 months ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Low risk	1,421,186	–	–	1,421,186
Medium risk	–	–	–	–
High risk	–	–	–	–
Total carrying amount excluding accrued interest	1,421,186	–	–	1,421,186
Allowance for impairment losses	(775)	–	–	(775)

(Expressed in millions of RMB, unless otherwise stated)

56 Risk management (continued)

(1) Credit risk (continued)

(g) *Credit exposure (continued)*

Financial investments (continued)

The Group classifies risk characteristics of amounts due from banks and non-bank financial institutions based on asset entry and internal rating changes. "Low risk" means that the issuer's initial internal rating is above the entry level, and there are no reasons to suspect that the amount due from banks and non-bank financial institutions is expected to be defaulted; "Medium risk" means that although the issuer's internal rating is reduced to a certain extent, there are not enough reasons to suspect that the amount due from banks and non-bank financial institutions is expected to be defaulted; "High risk" means that there are obvious problems which may cause a default, or the amount due from banks and non-bank financial institutions indeed is defaulted.

(h) *Distribution of amounts due from banks and non-bank financial institutions in terms of credit quality is as follows:*

	30 June 2021	31 December 2020
Credit impaired	–	–
Allowances for impairment losses	–	–
Subtotal	–	–
Neither overdue nor impaired	–	–
– grades A to AAA	1,146,501	1,133,754
– grades B to BBB	4,418	2,507
– unrated	350,523	284,925
Accrued interest	4,102	3,465
Total	1,505,544	1,424,651
Allowances for impairment losses	(621)	(775)
Subtotal	1,504,923	1,423,876
Total	1,504,923	1,423,876

Amounts neither overdue nor impaired are analysed above according to the Group's internal credit ratings. Unrated amounts due from banks and non-bank financial institutions include amounts due from a number of banks and non-bank financial institutions for which the Group has not assigned internal credit ratings.

(Expressed in millions of RMB, unless otherwise stated)

56 Risk management (continued)

(1) Credit risk (continued)

(i) *Distribution of debt investments analysed by rating*

The Group adopts a credit rating approach to manage the credit risk of the debt investment portfolio held. The ratings are obtained from Bloomberg Composite, or major rating agencies where the issuers of the debt investments are located. The carrying amounts of the debt investments analysed by the rating agency designations as at the end of the reporting period are as follows:

	30 June 2021					
	Unrated	**AAA**	**AA**	**A**	**Lower than A**	**Total**
Credit impaired						
– Banks and non-bank financial institutions	**342**	**–**	**–**	**–**	**–**	**342**
– Enterprises	**8,597**	**–**	**1,225**	**–**	**1,471**	**11,293**
Total	**8,939**	**–**	**1,225**	**–**	**1,471**	**11,635**
Allowances for impairment losses						**(8,180)**
Subtotal						**3,455**
Neither overdue nor impaired						
– Government	**2,108,926**	**3,205,715**	**7,869**	**8,988**	**16,371**	**5,347,869**
– Central banks	**16,512**	**1,825**	**10,255**	**1,203**	**475**	**30,270**
– Policy banks	**744,581**	**–**	**–**	**19,660**	**–**	**764,241**
– Banks and non-bank financial institutions	**142,819**	**255,990**	**10,687**	**35,247**	**10,710**	**455,453**
– Enterprises	**25,915**	**319,339**	**22,464**	**19,250**	**5,263**	**392,231**
Total	**3,038,753**	**3,782,869**	**51,275**	**84,348**	**32,819**	**6,990,064**
Allowances for impairment losses						**(14,597)**
Subtotal						**6,975,467**
Total						**6,978,922**

	31 December 2020					
	Unrated	AAA	AA	A	Lower than A	Total
Credit impaired						
– Banks and non-bank financial institutions	340	–	–	–	–	340
– Enterprises	7,545	–	1,226	–	1,800	10,571
Total	7,885	–	1,226	–	1,800	10,911
Allowances for impairment losses						(6,745)
Subtotal						4,166
Neither overdue nor impaired						
– Government	1,904,091	3,167,073	5,296	11,236	15,151	5,102,847
– Central banks	27,875	2,335	7,997	927	503	39,637
– Policy banks	758,689	408	–	22,297	–	781,394
– Banks and non-bank financial institutions	144,707	202,019	10,768	35,632	8,416	401,542
– Enterprises	59,740	295,736	25,000	25,242	5,253	410,971
Total	2,895,102	3,667,571	49,061	95,334	29,323	6,736,391
Allowances for impairment losses						(13,493)
Subtotal						6,722,898
Total						6,727,064

(Expressed in millions of RMB, unless otherwise stated)

56 Risk management (continued)

(1) Credit risk (continued)

(j) *Credit risk arising from the Group's derivative exposures*

The majority of the Group's derivative transactions with domestic customers are hedged back-to-back with overseas banks and non-bank financial institutions. The Group is exposed to credit risk in respect of both domestic customers and overseas banks and non-bank financial institutions. The Group manages this risk by monitoring this exposure on a regular basis.

(k) *Settlement risk*

The Group's activities may give rise to settlement risk at the time of the settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of an entity to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions, the Group mitigates this risk by conducting settlements through a settlement or clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations.

(l) *Sensitivity analysis*

The allowance for impairment losses is sensitive to the inputs used in internally developed models, macroeconomic variables in the forward-looking forecasts, and other factors considered when applying expert judgement. Changes in these inputs, assumptions, models, and judgements would have an impact on the assessment of significant increase in credit risk and the measurement of ECL.

(i) *Sensitivity analysis of segmentation*

The allowance for credit losses of performing financial assets consists of an aggregate amount of Stage 1 and Stage 2 probability-weighted ECL which are 12-month ECL and lifetime ECL, respectively. A significant increase in credit risk since initial recognition will result in financial assets transferring from Stage 1 to Stage 2. The following table presents the impact of ECL from the second year to the end of the lifetime for financial assets in Stage 2.

	30 June 2021		
	12 months allowances for ECL of all performing financial assets	**Impact of lifetime**	**Current allowances for ECL**
Performing loans	**411,489**	**29,787**	**441,276**
Performing financial investments	**17,701**	**180**	**17,881**

	31 December 2020		
	12 months allowances for ECL of all performing financial assets	Impact of lifetime	Current allowances for ECL
Performing loans	364,768	18,759	383,527
Performing financial investments	16,554	284	16,838

The above allowances for ECL do not contain the allowances for ECL of loans and advances measured at fair value through other comprehensive income.

(ii) *Sensitivity analysis of macroeconomic variables*

The Group has carried out sensitivity analysis of GDP forecast. As at 30 June 2021, when GDP growth rate in the baseline scenario increased or decreased by 10%, the change in allowances for ECL did not exceed 5% (As at 31 December 2020: did not exceed 5%).

(Expressed in millions of RMB, unless otherwise stated)

56 Risk management (continued)

(2) Market risk

Market risk is the risk of loss, in respect of the Group's on and off-balance sheet activities, arising from adverse movements in market rates including interest rates, foreign exchange rates, commodity prices and stock prices. Market risk arises from both the Group's trading and non-trading businesses. A trading book consists of positions in financial instruments and commodities held either with trading intent or in order to hedge other elements of the trading book. Non-trading book records those financial instruments and commodities which are not included in the trading book.

The Group continues to improve market risk management system. The Market Risk Management Department is responsible for leading the establishment of market risk management policies and rules, developing the market risk measurement tools, monitoring and reporting the trading market risk and related daily work. The Asset and Liability Management Department (the "ALM") is responsible for managing non-trading interest rate risk, exchange rate risk and the size and structure of the assets and liabilities in response to structural market risk. The Financial Market Department manage the Bank's RMB and foreign currency investment portfolios, conducts proprietary and customer-driven transactions, as well as implementing market risk management policies and rules. The Audit Department is responsible for regularly performing independent audits of the reliability and effectiveness of the processes constituting the risk management system.

The Group's interest rate risk mainly comprises repricing risk and basis risk arising from mismatch of term structure and pricing basis of assets and liabilities. The Group uses multiple tools such as repricing gap analysis, sensitivity analysis on net interest income, scenario analysis and stress testing, etc., to monitor the interest rate risk periodically.

The Group's foreign exchange exposures mainly comprise exposures from foreign currency portfolios within treasury proprietary investments in debt securities and money market placements, and currency exposures from its overseas business. The Group manages its foreign exchange exposures by spot foreign exchange transactions and by matching its foreign currency denominated assets with corresponding liabilities in the same currency, and also uses derivatives in the management of its own foreign currency asset and liability portfolios and structural positions.

The Group is also exposed to market risk in respect of its customer driven derivative portfolio and manages this risk by entering into back-to-back hedging transactions with overseas banks and non-bank financial institutions.

The Group considers that the market risk arising from stock prices in respect of its investment portfolios is minimal.

The Group monitors market risk separately in respect of trading portfolios and non-trading portfolios. Trading portfolios include exchange rate and interest rate derivatives as well as trading securities. The historical simulation model for the Value-at-Risk ("VaR") analysis is a major tool used by the Bank to measure and monitor the market risk of its trading portfolio. 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.

(a) *VaR analysis*

VaR is a technique which estimates the potential losses that could occur on risk positions taken, due to movements in market interest rates, foreign exchange rates and other market prices over a specified time horizon and at a given level of confidence. The Risk Management Department calculates interest rates, foreign exchange rates and commodity prices VaR for the Bank's trading portfolio. By reference to historical movements in interest rates, foreign exchange rates and commodity prices, the Risk Management Department calculates VaR on a daily basis for the trading portfolio and monitors it regularly. VaR is calculated at a confidence level of 99% and with a holding period of one day.

A summary of the VaR of the Bank's trading portfolio as at the end of the reporting period and during the respective periods is as follows:

		Six months ended 30 June 2021			
	Note	**As at 30 June**	**Average**	**Maximum**	**Minimum**
VaR of trading portfolio		**147**	**163**	**195**	**127**
Of which:					
– Interest rate risk		**63**	**64**	**89**	**41**
– Foreign exchange risk	(i)	**134**	**163**	**195**	**110**
– Commodity risk		**11**	**12**	**45**	**–**

		Six months ended 30 June 2020			
	Note	As at 30 June	Average	Maximum	Minimum
VaR of trading portfolio		271	251	317	207
Of which:					
– Interest rate risk		145	75	182	46
– Foreign exchange risk	(i)	257	254	298	214
– Commodity risk		6	8	39	3

(i) The VaR in relation to bullion is included in the foreign exchange risk above.

56 Risk management (continued)

(2) Market risk (continued)

(a) *VaR analysis (continued)*

VaR for each risk factor is the independently derived largest potential loss in a specific holding period and at a certain confidence level due to fluctuations solely in that risk factor. The individual VaRs do not add up to the total VaR as there is diversification effect due to correlation amongst the risk factors.

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based give rise to some limitations, including the following:

– A 1-day holding period assumes that it is possible to hedge or dispose of positions within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period;

– A 99 percent confidence level does not reflect losses that may occur beyond this level. Within the model used, there is 1 percent probability that losses could exceed the VaR;

– VaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day;

– The use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature; and

– The VaR measure is dependent upon the Bank's position and the volatility of market prices. The VaR of an unchanged position reduces if the market price volatility declines and vice versa.

(b) *Net interest income sensitivity analysis*

In monitoring interest rate risk on its overall non-derivative financial assets and liabilities, the Bank regularly measures its future net interest income sensitivity to an increase or decrease in market interest rates (assuming no asymmetrical movement in yield curves and a constant financial position). An incremental 100 basis points parallel fall or rise in all yield curves, other than that applicable to balances with central banks, would increase or decrease annualised net interest income of the Group by RMB73,054 million (as at 31 December 2020: RMB45,546 million). Had the impact of yield curves movement for demand deposits from customers been excluded, the annualised net interest income of the Group would decrease or increase by RMB56,718 million (as at 31 December 2020: RMB80,344 million).

The above interest rate sensitivity is for illustration purposes only and is assessed based on simplified assumptions. The figures here indicate estimated net interest income movements under various predicted yield curve scenarios and are subject to the Bank's current interest rate exposures. However, the possible risk management measures that can be undertaken by the interest risk management department or related business departments to mitigate interest rate risk have not been taken into account. In practice, the departments that manage the interest rate risk strive to reduce loss arising from the risk while increasing the net income. These figures are estimated on the assumption that the interest rates on various maturities will move within similar ranges, and therefore do not reflect the potential net interest income changes in the event that interest rates on some maturities may change and others remain unchanged. Moreover, the above estimations are based on other simplified assumptions, including that all positions will be held to maturity and rolled over upon maturity.

(Expressed in millions of RMB, unless otherwise stated)

56 Risk management (continued)

(2) Market risk (continued)

(c) Interest rate risk

Interest rate risk refers to the risk where the market interest rates, term structure and other factors may experience unfavourable fluctuations which impact the overall profitability and fair value resulting in losses to the Bank. The key determinants of the Group's interest rate risk arises from the mismatch between the maturity periods of the assets and liabilities, and inconsistent pricing basis, resulting in re-pricing risk and basis risk.

The ALM is responsible for regularly monitoring the interest rate risk positions and measuring the interest rate re-pricing gap. The main reason for measuring the interest rate re-pricing gap is to assist in analysing the impact of interest rate changes on net interest income.

The following tables indicate the expected next repricing dates (or maturity dates whichever are earlier) for the assets and liabilities of the Group as at the end of the reporting period.

		30 June 2021					
	Note	Non-interest-bearing	Within three months	Between three months and one year	Between one and five years	More than five years	Total
Assets							
Cash and deposits with central banks		105,267	2,675,149	22	–	–	2,780,438
Deposits and placements with banks and non-bank financial institutions		–	693,003	86,019	20,501	118	799,641
Financial assets held under resale agreements		–	704,300	982	–	–	705,282
Loans and advances to customers	(i)	35,941	4,759,540	12,125,200	310,602	262,619	17,493,902
Investments	(ii)	271,755	431,166	502,278	2,857,388	3,180,491	7,243,078
Others		810,847	–	–	–	–	810,847
Total assets		1,223,810	9,263,158	12,714,501	3,188,491	3,443,228	29,833,188
Liabilities							
Borrowings from central banks		–	341,437	422,929	1,547	–	765,913
Deposits and placements from banks and non-bank financial institutions		–	1,664,821	347,925	126,778	5,686	2,145,210
Financial liabilities measured at fair value through profit or loss		31,227	203,016	58,158	–	–	292,401
Financial assets sold under repurchase agreements		–	112,160	1,676	1,832	–	115,668
Deposits from customers		130,823	14,681,025	3,221,217	4,270,921	13,983	22,317,969
Debt securities issued		–	220,419	363,563	371,257	1,922	957,161
Others		776,525	–	–	–	–	776,525
Total liabilities		938,575	17,222,878	4,415,468	4,772,335	21,591	27,370,847
Asset-liability gap		285,235	(7,959,720)	8,299,033	(1,583,844)	3,421,637	2,462,341

(Expressed in millions of RMB, unless otherwise stated)

56 Risk management (continued)

(2) Market risk (continued)

(c) Interest rate risk (continued)

		31 December 2020					
	Note	Non-interest-bearing	Within three months	Between three months and one year	Between one and five years	More than five years	Total
Assets							
Cash and deposits with central banks		94,006	2,722,033	125	–	–	2,816,164
Deposits and placements with banks and non-bank financial institutions		–	728,820	75,305	17,512	–	821,637
Financial assets held under resale agreements		–	597,544	4,695	–	–	602,239
Loans and advances to customers	(i)	34,352	9,009,373	6,888,551	223,064	76,029	16,231,369
Investments	(ii)	247,395	347,431	690,258	2,725,215	2,954,056	6,964,355
Others		696,490	–	–	–	–	696,490
Total assets		1,072,243	13,405,201	7,658,934	2,965,791	3,030,085	28,132,254
Liabilities							
Borrowings from central banks		–	175,189	605,165	816	–	781,170
Deposits and placements from banks and non-bank financial institutions		–	1,871,778	291,532	124,537	5,425	2,293,272
Financial liabilities measured at fair value through profit or loss		33,559	163,261	57,259	–	–	254,079
Financial assets sold under repurchase agreements		–	52,701	2,320	1,704	–	56,725
Deposits from customers		127,871	13,695,262	2,754,998	4,020,810	16,035	20,614,976
Debt securities issued		–	311,134	306,548	320,570	1,945	940,197
Others		802,482	–	–	–	–	802,482
Total liabilities		963,912	16,269,325	4,017,822	4,468,437	23,405	25,742,901
Asset-liability gap		108,331	(2,864,124)	3,641,112	(1,502,646)	3,006,680	2,389,353

(i) For loans and advances to customers, the "within three months" category includes overdue amounts (net of allowances for impairment losses) of RMB38,056 million as at 30 June 2021 (as at 31 December 2020: RMB27,225 million).

(ii) Investments include financial assets measured at fair value through profit or loss, financial assets measured at amortised cost, financial assets measured at fair value through other comprehensive income and long-term equity investments, etc.

(Expressed in millions of RMB, unless otherwise stated)

56 Risk management (continued)

(2) Market risk (continued)

(d) Currency risk

The Group's foreign exchange exposures mainly comprise exposures that arise from the foreign currency proprietary investments of the treasury business and currency exposures originated by the Group's overseas businesses.

The Group manages currency risk by spot and forward foreign exchange transactions and by matching its foreign currency denominated assets with corresponding liabilities in the same currency, and also uses derivatives (principally foreign exchange swaps and cross currency swaps) in the management of its own foreign currency asset and liability portfolios and structural positions.

The Group actively manages foreign currency exposures by minimising foreign exchange risk by business lines. Therefore, the net exposure is not sensitive to exchange rate fluctuations and the potential impact on the pre-tax profits and other comprehensive income of the Group is not material.

The currency exposures of the Group's assets and liabilities as at the end of the reporting period are as follows:

		30 June 2021			
	Note	RMB	USD (RMB equivalent)	Others (RMB equivalent)	Total
Assets					
Cash and deposits with central banks		2,498,896	145,987	135,555	2,780,438
Deposits and placements with banks and non-bank financial institutions		557,065	224,078	18,498	799,641
Financial assets held under resale agreements		701,061	–	4,221	705,282
Loans and advances to customers		16,555,910	543,760	394,232	17,493,902
Investments	(i)	7,003,061	129,798	110,219	7,243,078
Others		703,522	42,204	65,121	810,847
Total assets		28,019,515	1,085,827	727,846	29,833,188
Liabilities					
Borrowings from central banks		722,765	25,288	17,860	765,913
Deposits and placements from banks and non-bank financial institutions		1,760,985	257,797	126,428	2,145,210
Financial liabilities measured at fair value through profit or loss		279,473	12,625	303	292,401
Financial assets sold under repurchase agreements		103,664	5,264	6,740	115,668
Deposits from customers		21,435,169	601,275	281,525	22,317,969
Debt securities issued		669,654	212,422	75,085	957,161
Others		749,463	27,024	38	776,525
Total liabilities		25,721,173	1,141,695	507,979	27,370,847
Long position		2,298,342	(55,868)	219,867	2,462,341
Net notional amount of derivatives		480	24,150	(17,857)	6,773
Credit commitments		3,009,898	290,534	158,856	3,459,288

(Expressed in millions of RMB, unless otherwise stated)

56 Risk management (continued)

(2) Market risk (continued)

(d) Currency risk (continued)

	Note	31 December 2020 RMB	USD (RMB equivalent)	Others (RMB equivalent)	Total
Assets					
Cash and deposits with central banks		2,510,876	179,211	126,077	2,816,164
Deposits and placements with banks and non-bank financial institutions		671,014	126,735	23,888	821,637
Financial assets held under resale agreements		599,033	–	3,206	602,239
Loans and advances to customers		15,367,154	464,009	400,206	16,231,369
Investments	(i)	6,712,930	133,024	118,401	6,964,355
Others		608,498	33,831	54,161	696,490
Total assets		26,469,505	936,810	725,939	28,132,254
Liabilities					
Borrowings from central banks		749,283	19,087	12,800	781,170
Deposits and placements from banks and non-bank financial institutions		1,885,514	275,053	132,705	2,293,272
Financial liabilities measured at fair value through profit or loss		236,614	15,245	2,220	254,079
Financial assets sold under repurchase agreements		46,841	3,764	6,120	56,725
Deposits from customers		19,834,531	495,952	284,493	20,614,976
Debt securities issued		684,612	188,391	67,194	940,197
Others		785,657	8,773	8,052	802,482
Total liabilities		24,223,052	1,006,265	513,584	25,742,901
Long position		2,246,453	(69,455)	212,355	2,389,353
Net notional amount of derivatives		25,640	36,405	(59,080)	2,965
Credit commitments		2,954,494	292,663	166,373	3,413,530

(i) Please refer to Note 56(2)(c)(ii) for the scope of investments.

(3) Liquidity risk

The Board assumes the ultimate responsibility for liquidity risk management, and authorises its special committees to discharge relevant duties, and reviews and approves the liquidity risk strategy and risk appetite. The senior management carries out the liquidity risk strategy set by the Board, and organises the implementation of the liquidity risk management activities. The board of supervisors supervises and evaluates the performance of the Board and the senior management in the liquidity risk management. The asset & liability management department leads in the Bank's daily liquidity risk management, and forms an executive system together with the business management departments and branches to perform various duties in liquidity risk management. The subsidiaries assume primary responsibility for their own liquidity risk management.

The Group's objective for liquidity risk management is to ensure the security of its payment and settlement, and the overall strategy features prudence, decentralisation, coordination and diversification. Liquidity risk arises from such major factors and events as significant drop in liquidation of current assets, massive outflow of wholesale or retail deposits, decreasing access to wholesale and retail financing, shorter financing periods, increasing financing costs, significant adverse changes in market liquidity and breakdown of the Bank's payment and settlement system. In light of the regulatory requirements, external macro environment and the Bank's business development, the head office formulates approaches for liquidity risk identification, measurement and monitoring, sets out risk limit management criteria, carries out intra-day liquidity management, conducts stress testing at the group level regularly, and reviews and assesses contingency plans.

The Group conducted quarterly stress testing on its liquidity risk in order to gauge its risk tolerance in unlikely extreme scenarios and other adverse scenarios. It improved its liquidity risk stress testing methods in accordance with regulatory and internal management requirements. The results of stress testing show that under different stress scenarios, the Group's liquidity risk is under control.

The Group adopts liquidity indicator analysis, remaining maturity analysis and undiscounted cash flow analysis to measure the liquidity risk.

(Expressed in millions of RMB, unless otherwise stated)

56 Risk management (continued)

(3) Liquidity risk (continued)

(a) *Maturity analysis*

The following tables provide an analysis of the assets and liabilities of the Group based on the remaining periods to repayment as at the end of the reporting period:

	30 June 2021							
	Indefinite	Repayable on demand	Within one month	Between one and three months	Between three months and one year	Between one and five years	More than five years	Total
Assets								
Cash and deposits with central banks	2,388,883	390,325	185	1,045	–	–	–	2,780,438
Deposits and placements with banks and non-bank financial institutions	–	83,170	488,992	120,839	85,519	21,003	118	799,641
Financial assets held under resale agreements	–	–	702,765	1,535	982	–	–	705,282
Loans and advances to customers	109,429	837,129	451,165	742,443	3,493,104	4,381,279	7,479,353	17,493,902
Investments								
– Financial assets measured at fair value through profit or loss	231,433	26,386	49,546	24,990	58,280	56,144	128,601	575,380
– Financial assets measured at amortised cost	317	–	57,094	123,096	253,962	1,741,503	2,520,683	4,696,655
– Financial assets measured at fair value through other comprehensive income	7,717	–	59,069	68,128	200,753	1,088,138	532,483	1,956,288
– Long-term equity investments	14,755	–	–	–	–	–	–	14,755
Others	318,779	174,324	38,976	61,243	85,185	35,335	97,005	810,847
Total assets	3,071,313	1,511,334	1,847,792	1,143,319	4,177,785	7,323,402	10,758,243	29,833,188
Liabilities								
Borrowings from central banks	–	–	121,501	219,936	422,929	1,547	–	765,913
Deposits and placements from banks and non-bank financial institutions	–	1,293,081	263,085	89,488	349,536	139,038	10,982	2,145,210
Financial liabilities measured at fair value through profit or loss	–	20,076	95,348	117,337	59,640	–	–	292,401
Financial assets sold under repurchase agreements	–	–	108,613	3,547	1,676	1,832	–	115,668
Deposits from customers	–	11,885,651	1,425,382	1,096,410	3,395,188	4,498,972	16,366	22,317,969
Debt securities issued	–	–	108,561	92,439	367,682	386,557	1,922	957,161
Others	32,560	253,367	70,011	65,209	222,860	23,622	108,896	776,525
Total liabilities	32,560	13,452,175	2,192,501	1,684,366	4,819,511	5,051,568	138,166	27,370,847
Net gaps	3,038,753	(11,940,841)	(344,709)	(541,047)	(641,726)	2,271,834	10,620,077	2,462,341
Notional amount of derivatives								
– Interest rate contracts	–	–	106,266	151,127	211,085	205,416	14,514	688,408
– Exchange rate contracts	–	–	912,315	806,072	1,327,285	96,262	1,488	3,143,422
– Other contracts	–	–	41,261	32,544	75,862	8,799	–	158,466
Total	–	–	1,059,842	989,743	1,614,232	310,477	16,002	3,990,296

(Expressed in millions of RMB, unless otherwise stated)

56 Risk management (continued)

(3) Liquidity risk (continued)

(a) Maturity analysis (continued)

	31 December 2020							
	Indefinite	Repayable on demand	Within one month	Between one and three months	Between three months and one year	Between one and five years	More than five years	Total
Assets								
Cash and deposits with central banks	2,330,273	483,266	1,537	1,088	–	–	–	2,816,164
Deposits and placements with banks and non-bank financial institutions	–	83,441	247,624	254,203	218,418	17,951	–	821,637
Financial assets held under resale agreements	–	–	584,491	13,053	4,695	–	–	602,239
Loans and advances to customers	92,098	818,412	390,460	891,697	3,047,961	3,984,181	7,006,560	16,231,369
Investments								
– Financial assets measured at fair value through profit or loss	222,924	17,595	48,777	21,282	53,304	78,416	135,654	577,952
– Financial assets measured at amortised cost	–	–	48,828	85,526	437,453	1,623,296	2,310,140	4,505,243
– Financial assets measured at fair value through other comprehensive income	6,955	–	34,412	39,326	209,352	1,068,340	509,073	1,867,458
– Long-term equity investments	13,702	–	–	–	–	–	–	13,702
Others	317,507	100,855	12,503	40,770	109,048	26,719	89,088	696,490
Total assets	2,983,459	1,503,569	1,368,632	1,346,945	4,080,231	6,798,903	10,050,515	28,132,254
Liabilities								
Borrowings from central banks	–	–	121,089	54,100	605,165	816	–	781,170
Deposits and placements from banks and non-bank financial institutions	–	1,518,231	150,011	173,627	294,142	144,493	12,768	2,293,272
Financial liabilities measured at fair value through profit or loss	–	19,058	110,119	67,643	57,259	–	–	254,079
Financial assets sold under repurchase agreements	–	–	47,927	4,774	2,320	1,704	–	56,725
Deposits from customers	–	11,245,302	1,225,798	973,853	2,926,982	4,225,570	17,471	20,614,976
Debt securities issued	–	–	124,371	147,702	325,314	340,865	1,945	940,197
Others	23,832	283,601	80,560	56,527	231,588	24,361	102,013	802,482
Total liabilities	23,832	13,066,192	1,859,875	1,478,226	4,442,770	4,737,809	134,197	25,742,901
Net gaps	2,959,627	(11,562,623)	(491,243)	(131,281)	(362,539)	2,061,094	9,916,318	2,389,353
Notional amount of derivatives								
– Interest rate contracts	–	–	69,502	130,562	264,040	168,030	18,091	650,225
– Exchange rate contracts	–	–	877,074	692,678	1,798,058	85,774	7,437	3,461,021
– Other contracts	–	–	17,940	19,538	80,646	7,947	–	126,071
Total	–	–	964,516	842,778	2,142,744	261,751	25,528	4,237,317

(Expressed in millions of RMB, unless otherwise stated)

56 Risk management (continued)

(3) Liquidity risk (continued)

(b) Contractual undiscounted cash flow

The following tables provide an analysis of the contractual undiscounted cash flow of the non-derivative financial liabilities and off-balance sheet credit commitments of the Group as at the end of the reporting period. The Group's expected cash flows on these instruments may vary significantly from this analysis.

	30 June 2021							
	Carrying amount	**Gross cash outflow**	**Repayable on demand**	**Within one month**	**Between one and three months**	**Between three months and one year**	**Between one and five years**	**More than five years**
Non-derivative financial liabilities								
Borrowings from central banks	**765,913**	**772,678**	**–**	**121,667**	**221,070**	**428,394**	**1,547**	**–**
Deposits and placements from banks and non-bank financial institutions	**2,145,210**	**2,167,083**	**1,296,041**	**263,360**	**89,926**	**356,078**	**149,505**	**12,173**
Financial liabilities measured at fair value through profit or loss	**292,401**	**292,594**	**20,076**	**95,494**	**117,380**	**59,644**	**–**	**–**
Financial assets sold under repurchase agreements	**115,668**	**115,713**	**–**	**108,639**	**3,557**	**1,678**	**1,839**	**–**
Deposits from customers	**22,317,969**	**22,473,213**	**11,885,805**	**1,430,767**	**1,107,215**	**3,435,589**	**4,596,810**	**17,027**
Debt securities issued	**957,161**	**1,003,905**	**–**	**109,009**	**94,118**	**377,093**	**421,515**	**2,170**
Other non-derivative financial liabilities	**463,724**	**467,653**	**68,753**	**54,860**	**40,706**	**186,448**	**12,070**	**104,816**
Total	**27,058,046**	**27,292,839**	**13,270,675**	**2,183,796**	**1,673,972**	**4,844,924**	**5,183,286**	**136,186**
Off-balance sheet loan commitments and credit card commitments (Note)		**1,651,852**	**1,191,333**	**17,742**	**28,589**	**82,932**	**147,479**	**183,777**
Guarantees, acceptances and other credit commitments (Note)		**1,807,436**	**348**	**298,768**	**236,528**	**719,704**	**512,948**	**39,140**

	31 December 2020							
	Carrying amount	Gross cash outflow	Repayable on demand	Within one month	Between one and three months	Between three months and one year	Between one and five years	More than five years
Non-derivative financial liabilities								
Borrowings from central banks	781,170	794,953	–	121,383	54,293	618,461	816	–
Deposits and placements from banks and non-bank financial institutions	2,293,272	2,312,157	1,518,231	150,402	174,318	299,787	155,792	13,627
Financial liabilities measured at fair value through profit or loss	254,079	254,227	19,058	110,204	67,706	57,259	–	–
Financial assets sold under repurchase agreements	56,725	56,770	–	47,948	4,784	2,325	1,713	–
Deposits from customers	20,614,976	21,268,003	11,246,849	1,243,390	1,010,531	3,065,734	4,683,271	18,228
Debt securities issued	940,197	986,193	–	124,483	154,158	333,073	372,280	2,199
Other non-derivative financial liabilities	503,594	508,046	141,118	63,153	34,903	159,151	13,975	95,746
Total	25,444,013	26,180,349	12,925,256	1,860,963	1,500,693	4,535,790	5,227,847	129,800
Off-balance sheet loan commitments and credit card commitments (Note)		1,651,694	1,073,078	15,286	54,154	164,463	165,902	178,811
Guarantees, acceptances and other credit commitments (Note)		1,761,836	867	273,366	226,013	714,676	507,553	39,361

Note: The off-balance sheet loan commitments and credit card commitments may expire without being drawn upon. Guarantees, acceptances and other credit commitments do not represent the amounts to be paid.

56 Risk management (continued)

(4) Operational risk

Operational risk refers to risk of losses resulting from inadequate or flawed internal processes, people and systems or from external events.

In the first half of 2021, the Group continuously enhanced operational risk management measures, revised operational risk management policies, improved governance structure, enriched management tools, clarified control measures and improved the mechanism of financial service in response to emergencies in combination with regulatory requirements.

– Continuously promoted the application of operational risk management tools and enhanced the operational risk assessments for new products.

– Focused on the recording, analysis and reporting of events where the Group suffered losses from non-compliance.

– Revised the manual for managing incompatible duties, key position catalogue of job rotations and mandatory leave.

– Strengthened the construction of internal control and formulated business avoidance policy.

– Based on the emergency plan in response to COVID-19, organized emergency drills, and provided guidance on emergency response to overseas institutions for the purpose of business continuity.

(5) Fair value of financial instruments

(a) Valuation process, technique and input

The Board is responsible for establishing a robust internal control policy of valuation, and takes the ultimate responsibility for the adequacy and effectiveness of internal control system. The Board of Supervisors takes charge of supervising the performance of the Board and senior management. According to the requirements of the Board and the Board of Supervisors, senior management is responsible for organising and implementing the internal control system over the valuation process to ensure the effectiveness of the internal control system of valuation.

The Group has established an independent valuation process for financial assets and financial liabilities. The relevant departments are responsible for performing valuation, verifying valuation model and accounting of valuation results.

For the six months ended 30 June 2021, there was no significant change in the valuation techniques or inputs used to determine fair value as compared to those used for the year ended 31 December 2020.

(b) Fair value hierarchy

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

– Level 1: Fair value based on quoted prices (unadjusted) in active markets for identical assets or liabilities.

– Level 2: Fair value based on inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

– Level 3: Fair value based on inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

(Expressed in millions of RMB, unless otherwise stated)

56 Risk management (continued)

(5) Fair value of financial instruments (continued)

(c) Financial instruments measured at fair value

(i) Fair value hierarchy

The table below analyses financial instruments, measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised:

	30 June 2021			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Positive fair value of derivatives	–	52,280	24	52,304
Loans and advances to customers				
– Loans and advances to customers measured at fair value through profit or loss	–	4,659	–	4,659
– Loans and advances to customers measured at fair value through other comprehensive income	–	241,305	–	241,305
Financial assets measured at fair value through profit or loss				
Financial assets held for trading purposes				
– Debt securities	1,306	163,574	–	164,880
– Equity instruments and funds	465	905	–	1,370
Financial assets designated as measured at fair value through profit or loss				
– Other debt instruments	–	30,747	1,010	31,757
Other financial assets measured at fair value through profit or loss				
– Credit investments	–	105	16,930	17,035
– Debt securities	335	119,533	156	120,024
– Funds and others	24,489	76,836	138,989	240,314
Financial assets measured at fair value through other comprehensive income				
– Debt securities	135,879	1,812,010	682	1,948,571
– Equity instruments designated as measured at fair value through other comprehensive income	2,500	–	5,217	7,717
Total	164,974	2,501,954	163,008	2,829,936
Liabilities				
Financial liabilities measured at fair value through profit or loss				
– Financial liabilities designated as measured at fair value through profit or loss	–	290,274	2,127	292,401
Negative fair value of derivatives	–	43,773	24	43,797
Total	–	334,047	2,151	336,198

(Expressed in millions of RMB, unless otherwise stated)

56 Risk management (continued)

(5) Fair value of financial instruments (continued)

(c) *Financial instruments measured at fair value (continued)*

(i) *Fair value hierarchy (continued)*

	31 December 2020			
	Level 1	Level 2	Level 3	Total
Assets				
Positive fair value of derivatives	–	68,992	37	69,029
Loans and advances to customers				
– Loans and advances to customers measured at fair value through profit or loss	–	9,890	–	9,890
– Loans and advances to customers measured at fair value through other comprehensive income	–	259,061	–	259,061
Financial assets measured at fair value through profit or loss				
Financial assets held for trading purposes				
– Debt securities	1,156	169,209	–	170,365
– Equity instruments and funds	1,385	30	–	1,415
Financial assets designated as measured at fair value through profit or loss				
– Other debt instruments	–	43,347	17,833	61,180
Other financial assets measured at fair value through profit or loss				
– Credit investments	–	1,021	13,181	14,202
– Debt securities	–	115,514	57	115,571
– Funds and others	27,916	50,044	137,259	215,219
Financial assets measured at fair value through other comprehensive income				
– Debt securities	119,489	1,740,584	430	1,860,503
– Equity instruments designated as measured at fair value through other comprehensive income	2,268	–	4,687	6,955
Total	152,214	2,457,692	173,484	2,783,390
Liabilities				
Financial liabilities measured at fair value through profit or loss				
– Financial liabilities designated as measured at fair value through profit or loss	–	251,973	2,106	254,079
Negative fair value of derivatives	–	81,919	37	81,956
Total	–	333,892	2,143	336,035

A majority of the financial assets classified as level 2 is RMB bonds. The fair value of these bonds is determined based on the valuation results provided by China Central Depository & Clearing Co., Ltd. A majority of the financial liabilities designated as measured at fair value through profit or loss classified as level 2 are the funds raised from structured deposits and principal guaranteed wealth management products, the fair value of which are determined based on the income approach. The majority of derivatives is classified as level 2 and valued using income approach. For the valuation of financial instruments classified as level 2, all significant inputs are observable market data.

The financial assets at fair value through profit or loss classified as level 3 are primarily the underlying assets of principal guaranteed wealth management products and unlisted equity investments. These financial assets are valued using income approach and market approach, which incorporate the non-observable assumptions including discount rate and P/B ratio.

For the six months ended 30 June 2021 and for the year ended 31 December 2020, there were no significant transfers within the fair value hierarchies of the Group.

(Expressed in millions of RMB, unless otherwise stated)

56 Risk management (continued)

(5) Fair value of financial instruments (continued)

(c) *Financial instruments measured at fair value (continued)*

(ii) *Movements of fair value of financial instruments in level 3 of the fair value hierarchy*

The following table shows a reconciliation from the opening balances to the ending balances for fair value measurement in level 3 of the fair value hierarchy:

	Six months ended 30 June 2021										
			Other financial assets measured at fair value through profit or loss			Financial assets measured at fair value through other comprehensive income					
	Positive fair value of derivatives	Other debt instruments designated as measured at fair value through profit or loss	Credit investments	Debt securities	Funds and others	Debt securities	Equity instruments	Total assets	Financial liabilities designated as measured at fair value through profit or loss	Negative fair value of derivatives	Total liabilities
As at 1 January 2021	37	17,833	13,181	57	137,259	430	4,687	173,484	(2,106)	(37)	(2,143)
Total gains or losses:											
In profit or loss	(11)	(27)	(1,274)	(5)	(1,397)	–	–	(2,714)	(34)	11	(23)
In other comprehensive income	–	–	–	–	–	(7)	(251)	(258)	–	–	–
Purchases	–	–	5,234	119	9,990	259	781	16,383	–	–	–
Sales and settlements	(2)	(16,796)	(211)	(15)	(6,863)	–	–	(23,887)	13	2	15
As at 30 June 2021	24	1,010	16,930	156	138,989	682	5,217	163,008	(2,127)	(24)	(2,151)

	2020											
		Financial assets designated as measured at fair value through profit or loss		Other financial assets measured at fair value through profit or loss			Financial assets measured at fair value through other comprehensive income					
	Positive fair value of derivatives	Debt securities	Other debt instruments	Credit investments	Debt securities	Funds and others	Debt securities	Equity instruments	Total assets	Financial liabilities designated as measured at fair value through profit or loss	Negative fair value of derivatives	Total liabilities
As at 1 January 2020	58	8,449	50,555	4,642	110	102,046	–	3,585	169,445	(1,848)	(58)	(1,906)
Total gains or losses:												
In profit or loss	(21)	(163)	(86)	(2,501)	–	106	–	–	(2,665)	(182)	21	(161)
In other comprehensive income	–	–	–	–	–	–	–	142	142	–	–	–
Purchases	–	–	62	11,773	266	49,283	430	963	62,777	(138)	–	(138)
Sales and settlements	–	(8,286)	(32,698)	(733)	(319)	(14,176)	–	(3)	(56,215)	62	–	62
As at 31 December 2020	37	–	17,833	13,181	57	137,259	430	4,687	173,484	(2,106)	(37)	(2,143)

In level 3 of the fair value hierarchy, total gains or losses included in profit or loss for the period in the above table are presented in net trading gain and net gain arising from investment securities.

Gains or losses on level 3 financial assets and liabilities included in the statement of comprehensive income comprise:

	Six months ended 30 June 2021			Six months ended 30 June 2020		
	Realised	Unrealised	Total	Realised	Unrealised	Total
Total (losses)/gains	(43)	(2,694)	(2,737)	122	(1,395)	(1,273)

(Expressed in millions of RMB, unless otherwise stated)

56 Risk management (continued)

(5) Fair value of financial instruments (continued)

(d) *Financial instruments not measured at fair value*

(i) *Financial assets*

The Group's financial assets not measured at fair value mainly include cash and deposits with central banks, deposits and placements with banks and non-bank financial institutions, financial assets held under resale agreements, loans and advances to customers and financial assets measured at amortised cost.

Deposits with central banks, deposits and placements with banks and non-bank financial institutions and financial assets held under resale agreements

Deposits with central banks, deposits and placements with banks and non-bank financial institutions and financial assets held under resale agreements are mainly priced at market interest rates and mature within one year. Accordingly, the carrying values approximate to the fair values.

Loans and advances to customers

Majority of the loans and advances to customers measured at amortised cost are repriced at least annually to the market rate. Accordingly, their carrying values approximate to the fair values.

Financial assets measured at amortised cost

The following table shows the carrying values and the fair values of financial assets measured at amortised cost as at 30 June 2021 and 31 December 2020 which are not presented in the statement of financial position at their fair values.

	30 June 2021					31 December 2020				
	Carrying value	Fair value	Level 1	Level 2	Level 3	Carrying value	Fair value	Level 1	Level 2	Level 3
Financial assets measured at amortised cost	4,696,655	4,749,259	22,481	4,577,025	149,753	4,505,243	4,534,743	19,815	4,372,096	142,832
Total	4,696,655	4,749,259	22,481	4,577,025	149,753	4,505,243	4,534,743	19,815	4,372,096	142,832

(ii) *Financial liabilities*

The Group's financial liabilities not measured at fair value mainly include borrowings from central banks, deposits and placements from banks and non-bank financial institutions, financial assets sold under repurchase agreements, deposits from customers, and debt securities issued. As at 30 June 2021, the fair value of subordinated bonds and the eligible Tier 2 capital bonds was RMB267,019 million (As at 31 December 2020: RMB282,028 million) and the corresponding carrying value was RMB281,683 million (As at 31 December 2020: RMB275,887 million), and the carrying values of other financial liabilities approximated to their fair values as at the end of the reporting period. The Group uses observable inputs to measure the fair values of subordinated bonds and eligible Tier 2 capital bonds issued, and classified them as the level 2 of fair value hierarchy.

(6) 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 an election, financial assets and financial liabilities will be settled on a gross basis. However, each party to the master netting arrangements or similar agreements will have the option to settle all such amounts on a net basis in the event of default of the other party. These financial assets and financial liabilities of the Group are not offset in accordance with IFRSs.

As at 30 June 2021, the amounts of the financial assets and financial liabilities subject to enforceable master netting arrangements or similar agreements are not material to the Group.

56 Risk management (continued)

(7) Insurance risk

The risk under an insurance contract is the possibility that the insured event occurs and the uncertainty in the resulting claim amount. The characteristic of an insurance contract inherently decides randomness and unpredictability of the underlying insurance risk. For insurance contracts where the theory of probability is applied to pricing and provisioning of insurance contract liabilities, the principal risk that the Group faces is that the actual claims and benefit payments exceed the carrying amount of the insurance contract liabilities.

The Group manages the uncertainty of insurance risk through its underwriting strategy and policies to diversify the underwriting risks, adequate reinsurance arrangements, and enhanced underwriting control and claim control.

The Group makes related assumptions for the insurance risks and recognises insurance contract liabilities accordingly. For long-term personal insurance contracts and short-term personal insurance contracts, insurance risk may be elevated by the uncertainty of insurance risk assumptions including assumptions on death events, relevant expenses, and interest rates. For property and casualty insurance contracts, claims are often affected by natural disasters, catastrophes, terrorist attacks and other factors. In addition, the insurance risk will be affected by the policy termination, premium reduction or policyholders' refusal of payment, that is, the insurance risk will be affected by the policyholder's behaviour and decision.

(8) Capital management

The Bank has implemented comprehensive capital management, covering capital management policy design, capital projecting and planning, capital calculation, internal capital assessment, capital allocation, capital motivation, restriction and conduction, capital raising, monitoring and reporting, and applications of advanced approach of capital calculation on the management of the ordinary course of the business. General principles of capital management of the Bank is to continuously retain an adequate capital level, retain a certain margin of safety and a certain level of buffer based on that all regulatory requirements have been complied, and ensure that the capital can cover all kinds of risks adequately; exercise reasonable and effective capital allocation and strengthen capital restraint and incentive mechanism to support the strategic planning effectively and to restrict and conduct the business so as to increase the capital efficiency and return level continuously; tamp capital strength, and retain relatively high capital quality by achieving capital supplement with priority to the internal accumulation and utilising various capital instruments reasonably to optimise capital structure; continuously develop the advanced approach of capital management on the applications in the business management such as credit policies, credit approval and pricing.

Capital adequacy ratio is a reflection of the Group's ability to maintain a stable operation and resist adverse risks. In accordance with the CBRC's "Capital Rules for Commercial Banks (Provisional)" and relevant regulations, commercial banks should meet the minimum capital requirements from 1 January 2013. The Common Equity Tier 1 ratio should be at or above a minimum of 5%, Tier 1 ratio at or above a minimum of 6% and the total capital ratio at or above a minimum of 8%. Besides, capital conservation buffer requirements and additional buffer requirements of Global Systemically Important Banks should also be met. If a countercyclical buffer is required or the Pillar 2 capital requirement is raised by the regulator to a specific commercial bank, the minimum requirements should be met within the transitional period.

The Group timely monitors, analyses and reports capital adequacy ratios, assesses if the capital management objectives have been met and exercises effective management of capital adequacy ratio. The Group adopts various measures such as controlling asset growth, adjusting the structure of risk assets, increasing internal capital supply and raising capital through external channels, to ensure that the Common Equity Tier 1 ratio, Tier 1 ratio and total capital ratio of the Group are in full compliance with regulatory requirements and meet internal management requirements. This helps to insulate against potential risks as well as support healthy business developments. The Group now fully complies with all regulatory requirements in this respect.

The Group's capital planning has taken the regulatory requirements, the Group's development strategy and risk appetite into consideration, and based on those factors the Group projects the capital usage and need.

The capital raising management of the Group involves reasonable utilisation of various capital instruments to ensure that both external regulatory and internal capital management objectives are met, taking into account capital planning and operating environment. This helps to optimise the Group's capital structure.

Based on the approval for the Group to implement the advanced capital management method in 2014, the CBIRC approved the Group to expand the implementation scope of the advanced capital management method in April 2020. The Group calculated the capital requirements for financial institution credit exposures and corporate credit risk exposures that meet regulatory requirements with the foundation internal ratings-based approach, the capital requirements for retail credit risk exposures with the internal ratings-based approach, the capital requirements for market risk with the internal models approach, and the capital requirements for operational risk with the standardised approach.

(Expressed in millions of RMB, unless otherwise stated)

56 Risk management (continued)

(8) Capital management (continued)

The Group's capital adequacy ratio calculated in accordance with the "Capital Rules for Commercial Banks (Provisional)" issued by the CBRC as at the end of the reporting period are as follows:

	Note	30 June 2021	31 December 2020
Common Equity Tier 1 ratio	(a)(b)(c)	**13.23%**	13.62%
Tier 1 ratio	(a)(b)(c)	**13.80%**	14.22%
Total capital ratio	(a)(b)(c)	**16.58%**	17.06%
Common Equity Tier 1 capital			
– Qualifying common share capital		**250,011**	250,011
– Capital reserve		**134,237**	134,237
– Surplus reserve		**275,995**	275,995
– General reserve		**349,605**	350,647
– Retained earnings		**1,315,241**	1,241,127
– Non-controlling interest recognised in Common Equity Tier 1 capital		**3,867**	3,954
– Others	(d)	**19,398**	19,483
Deductions for Common Equity Tier 1 capital			
– Goodwill	(e)	**1,974**	2,045
– Other intangible assets (excluding land use rights)	(e)	**4,463**	4,623
– Cash flow hedge reserves that relate to the hedging of items that are not fair valued on the balance sheet		**77**	367
– Investments in common equity of financial institutions being controlled but outside the scope of consolidation		**6,970**	6,970
Additional Tier 1 capital			
– Other directly issued qualifying additional Tier 1 instruments including related premium		**99,968**	99,968
– Non-controlling interest recognised in Additional Tier 1 capital		**102**	100
Tier 2 capital			
– Directly issued qualifying Tier 2 instruments including related premium		**208,736**	225,016
– Provisions in Tier 2	(f)	**282,674**	245,989
– Non-controlling interest recognised in Tier 2 capital		**165**	159
Common Equity Tier 1 capital after regulatory adjustments	(g)	**2,334,870**	2,261,449
Tier 1 capital after regulatory adjustments	(g)	**2,434,940**	2,361,517
Total capital after regulatory adjustments	(g)	**2,926,515**	2,832,681
Risk-weighted assets	(h)	**17,646,361**	16,604,591

Notes:

(a) From the first half year of 2014, the Group has adopted the advanced approach to calculate capital adequacy ratio and implemented the parallel period rules.

(b) The Common Equity Tier 1 ratio is calculated by dividing the Common Equity Tier 1 Capital after regulatory adjustments by risk-weighted assets. Tier 1 ratio is calculated by dividing the Tier 1 Capital after regulatory adjustments by risk-weighted assets. Total capital ratio is calculated by dividing the total capital after regulatory adjustments by risk-weighted assets.

(c) The scope for calculating capital adequacy ratio of the Group includes all the domestic branches and subsidiaries in the financial sector (insurance companies excluded).

(d) Others include other comprehensive income (including foreign exchange reserve).

(e) Both balances of goodwill and other intangible assets (excluding land use right) are the net amounts after deducting relevant deferred tax liabilities.

(f) From the first half year of 2014, eligible excessive loan provisions were measured based on the advanced approach and implemented parallel period rules.

(g) Common Equity Tier 1 capital after regulatory adjustments is calculated by netting off the corresponding deduction items from the Common Equity Tier 1 capital. Tier 1 capital after regulatory adjustments is calculated by netting off the corresponding deduction items from the Tier 1 capital. Total capital after regulatory adjustments is calculated by netting off the corresponding deduction items from the total capital.

(h) According to the rules of advanced approach, risk-weighted assets include credit risk-weighted assets, market risk-weighted assets, operational risk-weighted assets and excess risk-weighted assets due to the application of capital floor.

(Expressed in millions of RMB, unless otherwise stated)

57 Statement of financial position and statement of changes in equity of the Bank

	30 June 2021 (Unaudited)	31 December 2020 (Audited)
Assets:		
Cash and deposits with central banks	2,753,659	2,790,965
Deposits with banks and non-bank financial institutions	297,066	406,533
Precious metals	132,842	101,671
Placements with banks and non-bank financial institutions	416,055	460,991
Positive fair value of derivatives	50,618	66,313
Financial assets held under resale agreements	692,542	585,310
Loans and advances to customers	16,999,333	15,764,751
Financial investments		
Financial assets measured at fair value through profit or loss	272,712	312,014
Financial assets measured at amortised cost	4,605,226	4,397,169
Financial assets measured at fair value through other comprehensive income	1,865,162	1,792,488
Long-term equity investments	86,692	70,892
Investments in consolidated structured entities	198,710	68,629
Fixed assets	132,241	137,218
Land use rights	12,950	13,236
Intangible assets	4,079	4,203
Deferred tax assets	99,369	89,980
Other assets	321,170	231,764
Total assets	28,940,426	27,294,127
Liabilities:		
Borrowings from central banks	765,913	781,170
Deposits from banks and non-bank financial institutions	1,764,067	1,935,410
Placements from banks and non-bank financial institutions	267,106	256,325
Financial liabilities measured at fair value through profit or loss	290,077	251,898
Negative fair value of derivatives	41,871	78,424
Financial assets sold under repurchase agreements	90,870	33,364
Deposits from customers	21,994,461	20,289,611
Accrued staff costs	27,370	30,547
Taxes payable	49,286	82,374
Provisions	60,992	51,660
Debt securities issued	873,321	863,083
Deferred tax liabilities	32	48
Other liabilities	326,588	321,698
Total liabilities	26,551,954	24,975,612

(Expressed in millions of RMB, unless otherwise stated)

57 Statement of financial position and statement of changes in equity of the Bank (continued)

	30 June 2021 (Unaudited)	31 December 2020 (Audited)
Equity:		
Share capital	**250,011**	250,011
Other equity instruments		
Preference Shares	**59,977**	59,977
Perpetual Bonds	**39,991**	39,991
Capital reserve	**134,835**	134,835
Other comprehensive income	**22,927**	21,759
Surplus reserve	**275,995**	275,995
General reserve	**342,179**	342,174
Retained earnings	**1,262,557**	1,193,773
Total equity	**2,388,472**	2,318,515
Total liabilities and equity	**28,940,426**	27,294,127

Approved and authorised for issue by the Board of Directors on 27 August 2021.

Wang Jiang	**Kenneth Patrick Chung**	**Michel Madelain**
Vice chairman, executive director and president	*Independent non-executive director*	*Independent non-executive director*

(Expressed in millions of RMB, unless otherwise stated)

57 Statement of financial position and statement of changes in equity of the Bank
(continued)

	(Unaudited)								
		Other equity instruments							
	Share capital	Preference shares	Perpetual bonds	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Total equity
As at 1 January 2021	**250,011**	**59,977**	**39,991**	**134,835**	**21,759**	**275,995**	**342,174**	**1,193,773**	**2,318,515**
Movements during the period	**–**	**–**	**–**	**–**	**1,168**	**–**	**5**	**68,784**	**69,957**
(1) Total comprehensive income for the period	**–**	**–**	**–**	**–**	**1,168**	**–**	**–**	**150,293**	**151,461**
(2) Profit distribution									
i Appropriation to general reserve	**–**	**–**	**–**	**–**	**–**	**–**	**5**	**(5)**	**–**
ii Dividends paid to ordinary shareholders	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(81,504)**	**(81,504)**
As at 30 June 2021	**250,011**	**59,977**	**39,991**	**134,835**	**22,927**	**275,995**	**342,179**	**1,262,557**	**2,388,472**

	(Unaudited)								
		Other equity instruments							
	Share capital	Preference shares	Perpetual bonds	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Total equity
As at 1 January 2020	250,011	79,636	39,991	135,109	33,527	249,178	306,686	1,073,532	2,167,670
Movements during the period	–	–	–	–	7,337	–	5	58,131	65,473
(1) Total comprehensive income for the period	–	–	–	–	7,337	–	–	138,140	145,477
(2) Profit distribution									
i Appropriation to general reserve	–	–	–	–	–	–	5	(5)	–
ii Dividends paid to ordinary shareholders	–	–	–	–	–	–	–	(80,004)	(80,004)
As at 30 June 2020	250,011	79,636	39,991	135,109	40,864	249,178	306,691	1,131,663	2,233,143

(Expressed in millions of RMB, unless otherwise stated)

57 Statement of financial position and statement of changes in equity of the Bank (continued)

	(Audited)								
		Other equity instruments							
	Share capital	Preference shares	Perpetual bonds	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Total equity
As at 1 January 2020	250,011	79,636	39,991	135,109	33,527	249,178	306,686	1,073,532	2,167,670
Movements during the year	–	(19,659)	–	(274)	(11,768)	26,817	35,488	120,241	150,845
(1) Total comprehensive income for the year	–	–	–	–	(11,768)	–	–	268,174	256,406
(2) Changes in share capital									
i Capital deduction by other equity instruments holders	–	(19,659)	–	(274)	–	–	–	–	(19,933)
(3) Profit distribution									
i Appropriation to surplus reserve	–	–	–	–	–	26,817	–	(26,817)	–
ii Appropriation to general reserve	–	–	–	–	–	–	35,488	(35,488)	–
iii Dividends to ordinary shareholders	–	–	–	–	–	–	–	(80,004)	(80,004)
iv Dividends to other equity instrument holders	–	–	–	–	–	–	–	(5,624)	(5,624)
As at 31 December 2020	250,011	59,977	39,991	134,835	21,759	275,995	342,174	1,193,773	2,318,515

58 Events after the reporting period

On 22 July 2021, the Group issued in overseas market USD600.00 million fixed-rate bonds maturing in 2026 with a 5-year term and a coupon rate of 1.80%.

On 10 August 2021, the Group and the Bank issued in the domestic market RMB65.00 billion fixed-rate Tier-2 capital bonds maturing in 2031 with a 10-year term and a coupon rate of 3.45%. The Group has an option to redeem these bonds at the end of the fifth year upon meeting certain conditions.

On 10 August 2021, the Group and the Bank issued in the domestic market RMB15.00 billion fixed-rate Tier-2 capital bonds maturing in 2036 with a 15-year term and a coupon rate of 3.80%. The Group has an option to redeem these bonds at the end of the tenth year upon meeting certain conditions.

59 Comparative figures

To comply with the presentation requirements of the current year financial statements, the Group adjusted the presentation of certain comparative figures such as income from credit card instalment business.

60 Ultimate parent

As stated in Note 1, the immediate and ultimate parents of the Group are Huijin and CIC, respectively.

(Expressed in millions of RMB, unless otherwise stated)

61 Possible impact of amendments, new standards and interpretations issued but not yet effective

Up to the date of issue of the financial statements, the IASB has issued the following amendments, new standards and interpretations which are relevant to the Group. These amendments, new standards and interpretations are not yet effective for the period ended 30 June 2021 and have not been adopted in the financial statements.

	Standards	**Effective for annual periods beginning on or after**
(1)	Amendments to IFRS 3 *Reference to the Conceptual Framework*	1 January 2022
(2)	Amendments to IAS 16 *Property*, *Plant and Equipment: Proceeds before Intended Use*	1 January 2022
(3)	Amendments to IAS 37 *Onerous Contracts – Costs of Fulfilling a Contract*	1 January 2022
(4)	Annual Improvements to IFRSs 2018-2020 Cycle	1 January 2022
(5)	Amendments to IAS 1 *Classification of Liabilities as Current or Non-current*	1 January 2023
(6)	IFRS 17 "Insurance Contracts"	1 January 2023
(7)	Amendments to IAS 1 and IFRS Practice Statement 2 *Disclosure of Accounting Policies*	1 January 2023
(8)	Amendments to IAS 8 *Definition of Accounting Estimates*	1 January 2023
(9)	Amendments to IAS 12 *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*	1 January 2023
(10)	Amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	Effective date has been deferred indefinitely

Except for IFRS 17, the Group anticipates that the adoption of the new standards and amendments will not have a significant impact on the Group's consolidated financial statements.

(1) Amendments to IFRS 3 *Reference to the Conceptual Framework*

Amendments to IFRS 3 are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements issued in 1989 with a reference to the Conceptual Framework for Financial Reporting issued in March 2018, without significantly changing its requirements. The amendments add an exception to the recognition principle of IFRS 3 to avoid the issue of potential "day 2" gains or losses arising for liabilities and contingent liabilities, and clarify that contingent assets do not qualify for recognition at the acquisition date.

(2) Amendments to IAS 16 *Property, Plant and Equipment: Proceeds before Intended Use*

Amendments to IAS 16 prohibit entities from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the cost of producing those items, in profit or loss.

(3) Amendments to IAS 37 *Onerous Contracts – Costs of Fulfilling a Contract*

Amendments to IAS 37 specify that the "cost of fulfilling" a contract comprises the "costs that relate directly to the contract". The costs that relate directly to a contract include both incremental costs (examples would be the costs of direct labour and materials) and an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

(4) Annual Improvements to IFRSs 2018-2020 Cycle

Annual Improvements to IFRSs 2018-2020 Cycle was issued in May 2020. Those amendments affect IFRS 1 "First-time Adoption of International Financial Reporting Standards", IFRS 9 "Financial Instruments", IAS 41 "Agriculture" and IFRS 16 "Leases".

(5) Amendments to IAS 1 *Classification of Liabilities as Current or Non-current*

The IASB issued amendments to IAS 1 to specify the requirements for classifying liabilities as current or non-current.

The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

61 Possible impact of amendments, new standards and interpretations issued but not yet effective (continued)

(6) IFRS 17 *Insurance Contracts*

IFRS 17 was issued in May 2017 as replacement for IFRS 4 "Insurance Contracts". It requires a current measurement model where estimates are re-measured during 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 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.

Amendments to IFRS 17 were issued in June 2020.

The Group is currently assessing the impact of IFRS 17 upon initial application.

(7) Amendments to IAS 1 and IFRS Practice Statement 2 *Disclosure of Accounting Policies*

The amendments to IAS 1 replace the requirement to disclose 'significant' accounting policies with a requirement to disclose 'material' accounting policies. Guidance and illustrative examples are added in the Practice Statement 2 to assist in the application of the materiality concept when making judgements about accounting policy disclosures.

(8) Amendments to IAS 8 *Definition of Accounting Estimates*

Amendments to IAS 8, introduces a new definition of 'accounting estimates'. Accounting estimates are defined as "monetary amounts in financial statements that are subject to measurement uncertainty". The amendments clarify what changes in accounting estimates are and how these differ from changes in accounting policies and corrections of errors

(9) Amendments to IAS 12 *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*

Amendments to IAS 12 introduce an exception to the initial recognition exemption in IAS 12 for deferred tax assets and deferred tax liabilities, and clarify the accounting treatment method of deferred income tax for right-of-use assets and lease liabilities, and decommissioning obligations.

(10) Amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The narrow-scope amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" clarify the accounting treatment for sale or contribution of assets between an investor and its associates or joint ventures. They confirm that the accounting treatment depends on whether the non-monetary assets sold or contributed to an associate or joint venture constitute a "business" (as defined in IFRS 3 "Business Combinations").

Where the non-monetary assets constitute a business, the investor will recognise the full gain or loss on the sale or contribution of assets. If the assets do not meet the definition of a business, the gain or loss is recognised by the investor only to the extent of the other investor's investors in the associate or joint venture. The amendments apply prospectively.

ISSUER

China Construction Bank Corporation
（中國建設銀行股份有限公司）
No. 25, Finance Street
Xicheng District
Beijing 100033
People's Republic of China

FISCAL AGENT, PAYING AGENT AND CALCULATION AGENT

China Construction Bank (Asia) Corporation Limited
（中國建設銀行（亞洲）股份有限公司）
28F, CCB Tower
3 Connaught Road Central
Central
Hong Kong

REGISTRAR AND TRANSFER AGENT

China Construction Bank (Asia) Corporation Limited
（中國建設銀行（亞洲）股份有限公司）
28F, CCB Tower
3 Connaught Road Central
Central
Hong Kong

LEGAL ADVISERS

To the Issuer
as to English law

Clifford Chance
27th Floor, Jardine House
One Connaught Place
Central, Hong Kong

To the Issuer
as to PRC law

Beijing Jincheng Tongda & Neal Law Firm
10th Floor, China World Tower A
No.1 Jianguo Menwai Avenue
Beijing 100004, China

To the Managers
as to English law

Linklaters
11th Floor
Alexandra House
18 Chater Road
Central
Hong Kong

To the Managers
as to PRC law

Global Law Office
15&20/F Tower 1
China Central Place
No. 81 Jianguo Road, Chaoyang District
Beijing 100025, China

INDEPENDENT AUDITOR OF THE BANK

For the year ended 31 December 2018

PricewaterhouseCoopers
22nd Floor, Prince's Building
Central
Hong Kong

From 1 January 2019 onwards

Ernst & Young
27/F One Taikoo Place
979 King's Road, Quarry Bay
Hong Kong

A.Plus International
FINANCIAL PRESS LIMITED
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